FILE COPY

FILED
DEC 20 193
CHARLES ELMORE CR
CLE

IN THE

Supreme Court of the United States

OCTOBER TERM—1930.

No. 378.

STANDARD OIL COMPANY (Indiana) *et al.*,
Appellants,

v.

UNITED STATES OF AMERICA,
Appellee.

JOINT BRIEF FOR TWENTY-TWO "SECONDARY DEFENDANT" APPELLANTS.

JAMES J. COSGROVE,
FRANK L. CRAWFORD,
G. H. DORR,
OSCAR J. DORWIN,
RICHARD E. DWIGHT,
EARLE W. EVANS,
FRANCIS I. FALLON,
W. H. FRANCIS,
GEORGE V. HOLTON,
ALBERT L. HOPKINS,
JAMES P. KEM,
WALTER G. KIRKBRIDE,
CHARLES A. KREPS,
R. E. LAMBERTON,
WILLIAM A. McAFEE,
CHARLES G. MIDDLETON,
S. A. MITCHELL,
BURTON W. MUSSER,
G. J. NEUNER,
PETER M. SPEER,
OSCAR SUTRO,
C. A. THOMPSON,
J. MERRILL WRIGHT,

Of Counsel for Respective Secondary Defendants.

Pandick Press, Inc., 22 Thames St., New York, U. S. A.

SUBJECT INDEX.

	PAGE
OPINION BELOW AND GROUNDS FOR JURISDICTION	1
STATEMENT OF THE CASE	1
List of Appellants Joining in this Brief	1
Suit in Equity under Sherman Law	2
Preliminary Statement	2
Primary Defendants, description of	4
Secondary Defendants, description of	4
Nature of Controversy between Government and Primary Defendants	5
Position of Secondary Defendant Appellants	5
MATERIAL FACTS RELATING TO SECONDARY DEFENDANT APPELLANTS	5
(1)—The "Primary Agreements"	5
(2)—The "Secondary Agreements"	7
(a)—General Description	7
(b)—Classification of Licenses	7
(c)—Restrictive Provisions	9
(3)—Installation of Equipment by Secondary Defendant Appellants to Operate Under Patents Licensed	10
(4)—Payment of License Fees in Full	10
(5)—Respective Situations of Primary and Secondary Defendants	11
(6)—Situation of Secondary Defendants on the Trial	11
(7)—The Final Decree	13
SPECIFICATIONS OF ERROR	14
SUMMARY OF ARGUMENT	15
ARGUMENT	17

PAGE

POINT I—Voiding the licenses of the secondary defendant appellants deprives them of important protection and rights 17

(1)—Right to call on the licensor for defense of patent litigation 17

(2)—Immunity for future operation under licensor's patents 18

(3)—License rights paid for in full 19

(4)—Warranty by licensors of immunity under patents other than their own 19

(5)—Result of the decree 22

POINT II—These secondary defendant appellants should not be deprived of their rights under licenses which relate only to patents of their respective licensors, and, if the decree was intended to apply to such licenses, it is erroneous 22

POINT III—Nor should any one of these secondary defendant appellants be deprived of its rights under a license by reason of the fact that its licensor was a party to the cross-licensing agreements and agreed to extend, in addition to immunity under its own patents, protection under other patents 26

(1)—These Secondary Defendant Appellants were not parties to any combination 27

(2)—Contracts which are not in themselves unlawful, entered into by an innocent third person with a party to an illegal combination, have been held by this Court to be collateral and enforceable *against* the innocent third person. *A fortiori* they should remain enforceable *by* the latter.. 31

PAGE

POINT IV—If this Court should hold that the act of the licensor in granting a license to a secondary defendant was illegal on the part of the primary defendant, by reason of the participation of the licensor in an illegal combination with the other primary defendants, the license should be decreed to be voidable by the innocent licensee, but not void 35

(1)—A contract entered into illegally by one party, but innocently by another, is not necessarily void 35

(2)—Even if the primary agreements should have been declared null and void, the remedy of the licensee against the licensor should be preserved 37

POINT V—If the Court below felt itself constrained to adjudge the licenses to secondary defendants null and void, it should at least have endeavored to work out a form of injunctive relief which would have given them some protection in the altered situation which its decree was creating 39

POINT VI—A Court of Equity under the Sherman Anti-Trust Law has the power and duty to mould its decree upon the realities of the situation and to protect rights which have accrued 40

POINT VII—If this Court deems improper any of the provisions of the licenses to these secondary defendant appellants, claimed by the Government to be unlawfully restrictive, the decree should, we submit, be confined in that respect specifically to enjoining the primary defendants from enforceing such provisions, without striking down the whole of such licenses 43

(1)—This remedy is all that was asked by the Government in its petition 43

PAGE

(2)—There is no legal difficulty in this course.... 43

(3)—The only restrictions criticized by the Court in its opinion either never existed in, or have been eliminated from, the licenses to secondary defendants..... 44

POINT VIII—The decree should be reversed in so far as it declares the agreements entered into by the primary defendants with these secondary defendant appellants to be null and void and enjoins the defendants from further performing the same; or if this Court finds that such agreements were illegal on the part of the primary defendants, then the decree should be modified by adjudging such agreements not void but voidable as to these secondary defendant appellants. In any event, the decree should be modified so as to protect by proper injunctive provisions the rights acquired by these appellants under such agreements..... 45

APPENDIX A—Classification of Licenses..... 48

APPENDIX B—Alleged Restrictive Provisions..... 52

APPENDIX C—Pertinent Assignments of Error of these secondary defendant appellants 54

Table of Authorities Cited.

PAGE

Cases:

American Tobacco Co. v. *United States*, 221 U. S. 106 41

Carter-Crume Co. v. *Peurrung*, 86 Fed. 439 33

Connolly v. *Union Sewer Pipe Co.*, 184 U. S. 540 ..... 31, 32

Continental Wall Paper Co. v. *Louis Voight and Sons Co.*, 212 U. S. 227 33

Gibbs & Sterrett Manufacturing Co. v. *Brucker*, 111 U. S. 597 36

Higgins v. *California Prune & Apricot Growers, Inc.*, 16 F. (2d) 190 32

Milliken-Tomlinson Co. v. *American Sugar Refining Co.*, 9 F. (2d) 809 32

Northern Securities Co. v. *United States*, 198 U. S. 197 40

Small Co. v. *Lamborn & Co.*, 267 U. S. 248 ..... 28, 31

Standard Oil Co. v. *United States*, 221 U. S. 1 41

United Shoe Machinery Corp. v. *United States*, 258 U. S. 451 43

United States v. *American Tobacco Co.*, 191 Fed. 371 42

United States v. *Oregon Lumber Co.*, 260 U. S. 290 37

United States v. *Reading Co.*, 253 U. S. 26 44

Virtue v. *Creamery Package Manufacturing Co.*, 227 U. S. 8 ..... 17, 23

Wilder Manufacturing Co. v. *Corn Products Refining Co.*, 236 U. S. 165 31

Wisewall, The Charles E., 74 Fed. 802 32

Treatises:

Williston, Contracts, Sec. 1630 35

Statutes:

Act of February 11, 1903 (15 U. S. C. A., Sec. 29) 2

Act of February 13, 1925 (28 U. S. C. A., Sec. 345) 2

Sherman Act (15 U. S. C. A., Sec. 1) 2

IN THE

Supreme Court of the United States

OCTOBER TERM, 1930.

No. 378.

STANDARD OIL COMPANY (INDIANA), *et al.*,
Appellants,

v.

UNITED STATES OF AMERICA,
Appellee.

JOINT BRIEF FOR TWENTY-TWO "SECONDARY DEFENDANT" APPELLANTS.

Opinion of Court Below and Grounds for Jurisdiction.

The opinion of the District Court is reported in 33 F. (2d) 617, and is printed in the record (R., Vol. III, p. 1988).

In accordance with paragraph 1 of Rule 12 of this Court, appellants, in due course, filed with this Court a Statement as to Jurisdiction to Review on Appeal the Decree below, and it was announced on October 20, 1930 that "probable jurisdiction is noted".

Statement of the Case.

This brief is filed on behalf of the following secondary defendants who have joined in the appeal:

Beacon Oil Company
The Hickok Producing Company
Indian Refining Company

Magnolia Petroleum Company
Owl Oil Company
The Pure Oil Company
Roxana Petroleum Corporation
The Standard Oil Company (Ohio)
Solar Refining Company
Standard Oil Company of California
Sun Oil Company
Standard Oil Company of New York
Sapulpa Refining Company
Standard Oil Company (Kansas)
Standard Oil Company (Kentucky)
Tide Water Oil Company
Tidal Refining Company
Utah Oil Refining Company
Vacuum Oil Company
Waite Phillips Company
Waverly Oil Works Company
White Eagle Oil and Refining Company

This joint brief is filed in order to relieve the Court, so far as possible, of the labor of reading numerous briefs covering the same ground.

This is an appeal under the provisions of the Act of February 13, 1925 (28 U. S. C. A., §345), and of section 2 of the Act of February 11, 1903 (15 U. S. C. A., §29), from a decree entered in the United States District Court for the Northern District of Illinois, Eastern Division, in the Seventh Circuit, in a suit in equity for alleged violation of the Act of July 2, 1890, commonly known as the "Sherman Anti-Trust Act" (15 U. S. C. A., §1).

The suit having been begun by the filing of the petition on or about the 25th day of June, 1924 (R., Vol. I, p. 1), upon a certificate of "general public importance", filed by the Attorney General of the United States (R., Vol. I, p. 400), the cause was assigned for hearing before Circuit Judges Evans, Page and Anderson. Thereafter, the cause

being at issue, the Court on the motion of the Government referred the cause to Honorable Charles Martindale of Indianapolis, as Special Master, to take evidence and report (R., Vol. I, pp. 400, 402). On December 7, 1927, the Special Master transmitted to the Court the evidence which had been adduced before him, together with his findings and conclusions (R., Vol. I, p. 424). His general conclusion, after making certain specific findings, was that "the equities in this cause are with the defendants and the petition and supplemental petition in this cause should be dismissed for want of equity" (R., Vol. I, p. 664).

The case was thereafter heard by the Court on Exceptions to the Master's report (R., Vol. I, p. 664), filed December 27, 1927, by the petitioner and on a motion to recommit filed by the petitioner on the same day (R., Vol. II, p. 724). On June 11, 1929, a majority of the Court, consisting of Judges Evans and Page, rendered their decision with an opinion, in which they held that the petitioner was entitled to a decree as to certain of the issues in the cause (R., Vol. III, p. 1988). Judge Anderson dissented, expressing the view that the Master's report should be confirmed (R., Vol. III, p. 2020). On January 20, 1930, the final decree in the cause (R., Vol. III, p. 2020) was entered, dismissing the petition as to defendants Adams and the Kellogg Company, but being otherwise in favor of the petitioner.

Application for leave to appeal was duly presented by various defendants to said District Court on the 10th day of March, 1930, and it appearing that all of the defendants had been duly served with summons and severance (R., Vol. III, p. 2092), the appeal was then duly allowed as to the defendants joining in the application (R., Vol. III, p. 2092). Thereafter the required citation was duly issued

and served (R., Vol. III, p. 2106), and a *praecipe* duly filed (R., Vol. III, p. 2099), and the Transcript of Record having been thereupon settled by the said District Court upon due notice (R., Vol. III, p. 1986), the Clerk of said Court transmitted to this Court such transcript.*

Primary Defendants.

In the petition the Standard Oil Company (Indiana), Standard Oil Company (New Jersey), Standard Development Company, The Texas Company and Gasoline Products Company are classified as "primary defendants" (R., Vol. I, p. 9). The Standard Development Company, being the research and patent-owning subsidiary of the Standard Oil Company (New Jersey), for the purposes of this case need not be differentiated from the latter company. The primary defendants, for convenience, will be referred to as "Indiana", "Texas", "New Jersey" (including Standard Development Company) and "Gasoline Products".

The primary defendants are all owners of various patents covering apparatus and processes applicable to the production of gasoline and three of them are also refiners of gasoline by so-called "cracking" operations. They executed certain cross-licenses among themselves. They also severally issued licenses under various patents to other producers of gasoline.

Secondary Defendants.

All the defendants named in the petition, other than the primary defendants above described, are classified as "secondary defendants" (R., Vol. I, p. 9). They are producers of gasoline who hold licenses from one or more of

* All references herein are to the pages of the Transcript of Record as printed by the Clerk of this Court.

the primary defendants to operate under various patents owned by such primary defendants.

The Controversy Between the Government and the Primary Defendants.

The controversy between the Government and the primary defendants turns primarily on the propriety of the cross-licensing agreements which the primary defendants entered into with each other. The secondary defendant appellants for whom this brief is filed, not being parties to these agreements, leave that controversy to the Government and the primary defendants.

The Position of the Secondary Defendant Appellants.

The secondary defendant appellants are interested solely in the protection of contract rights which they have acquired innocently, for valuable considerations, through the licenses which they have individually received from various primary defendants, and on the faith of which they have made investments which are endangered by certain provisions of the decree as it now stands and for which they conceive that they are entitled to the protection of this Court.

Material Facts Relating to Secondary Defendant Appellants.

1. The "Primary Agreements."

As a preliminary to an understanding of the factual situation of the secondary defendants it is necessary to refer briefly at the outset to the agreements between the primary defendants, to which the secondary defendants

were not parties. The primary defendants are the owners of patents relating to various phases of the art of obtaining gasoline by "cracking", which is a technical term for the chemical rearrangement of the hydrocarbons of petroleum in a manner to give a yield of gasoline additional to that obtainable through the ordinary process of distillation of crude oil under atmospheric pressure (R., Vol. I, pp. 453-454).

The primary defendants, as the owners of the patents referred to, entered into certain cross-license agreements among themselves. Of these agreements (denominated in the petition "primary agreements"), the ones particularly relied upon by the Government are the following:

Ex.	*No. and Page*	*Date*	*Parties*
31	(R., Vol. II, p. 1315)	Aug. 26, 1921	Indiana and Texas
55	(R., Vol. III, p. 1579)	Jan. 26, 1923	Gasoline Products and Texas
74	(R., Vol. III, p. 1749)	Sept. 28, 1923	New Jersey, Indiana and Texas

These agreements relate to the reciprocal use by the primary defendants, between whom the agreements were made, of various of the processes described in their patents for the cracking of gasoline, and also provide that each primary defendant, party to such an agreement, in granting a license under its own patents to other refiners, might, with such license, grant a limited sub-license under patents of one or more of the other primary defendants, parties to such cross-license agreements. These cross-license or "primary" agreements between the various primary defendants defined the scope of the sub-licenses authorized to be granted and also contained certain provisions as to royalties. The Court in its opinion found that these cross-license agreements were in restraint of trade as being in effect pooling and price-fixing agreements.

2. The "Secondary Agreements".

(a) *General description.*

The secondary defendants were refiners who were engaged in refining petroleum and desired to avail themselves of various inventions in the cracking art on which patents had been granted. The so-called "secondary agreements" to which any of these appellants were parties were license agreements made by a single primary defendant with a single secondary defendant, by which the primary defendant contracted to confer certain limited rights of immunity under certain patents and the secondary defendant agreed to pay for these immunities by a lump sum or a series of royalty payments. Further, the licensor contracted to defend its licensee, for operations under the license, against infringement suits by others and to permit the use of certain improvements that might be made during the life of the license.

(b) *Classification of licenses.*

The licenses, described in the petition, granted to the secondary defendant appellants who have joined in this brief, are enumerated and classified in Appendix A (*infra*, pp. 48-51), with references to their places in the record. In general, these licenses may be described as follows:

(1) Twenty-seven of such licenses were granted before the respective licensors became parties to any cross-license agreement and did not confer any rights under patents other than those of the particular licensor. Such are all the licenses enumerated in Groups I, II and III, in the table in

Appendix A, except Exhibit 57 in Group I, which was simply a modification of a prior license.*

(2) In the case of the licenses in Group III of Appendix A, being six licenses from Gasoline Products granted before the date of Govt. Ex. 55, the first cross-license agreement to which Gasoline Products was a party, that Company, after the execution of cross-licenses between itself and Texas, and itself, Indiana and New Jersey, wrote to all or most of its previous secondary licensees letters stating in substance that it had been granted authority to extend to them a sub-license under the patents of Texas and Indiana (R., Vol. II, p. 1263; Vol. III, pp. 1398, 1419, 1449, 1464, 1565) and, in most cases, also of New Jersey (R., Vol. II, p. 1267; Vol. III, pp. 1453, 1468, 1569), for operations which such licensees were already authorized to conduct under the terms of their license contracts with Gasoline Products. No additional royalty was charged to the secondary licensees for this additional grant.

(3) There are, next, the licenses included in Groups IV, V and VI in Appendix A. Omitting No. 58, which was granted solely under the patents of Gasoline Products, there remain four licenses by which a particular primary defendant licensor extended to its secondary licensee not only immunity under its own patents but also immunity under patents of one or more of the other primary defendants. Thus, Exhibits 32 and 45 were granted by Indiana and Exhibit 46 by Texas, all after the execution of Exhibit 31 and before that of Exhibit 55 (each of them granting immunity only under patents of Indiana and Texas); and

---

*NOTE—Exhibits Nos. 2, 3, 6 and 9 in Group I appear to have expired before the petition was filed. Exhibits Nos. 7, 10 and 16 in Group I are stated in the record to have been superseded by Exhibits Nos. 30, 27 and 32, respectively (*infra*, p. 48).

Exhibit 59 was granted by Gasoline Products after the execution of Exhibit 55. All that appeared in any such case to the secondary defendant was that it was getting the right to operate under the patents of its licensor and also a right to operate under certain patents of other patent owners by a sub-license granted by its licensor, which its licensor represented that it was empowered to grant.

None of the provisions of the primary agreements which, in the opinion of the Court below, rendered them illegal as pooling and price-fixing agreements, appear in the secondary agreements mentioned in the petition.

In no case did the primary defendants as a group enter into any joint license agreement with any of these secondary defendants or any group of them. In each instance the individual secondary defendant obtained its immunity by a license running from an individual primary defendant as licensor.

(c) *Restrictive provisions.*

In certain of the "secondary agreements" there were certain provisions which the petition alleged were unduly restrictive of the licensees. These were:

(1) In certain of the licenses, limitations as to the disposition of the product which the secondary defendant was licensed to manufacture;

(2) In certain of the licenses, limitations as to the amount which could be manufactured or the amount of the material which could be treated under the particular license in question and as to the place of manufacture; and

(3) In certain instances, provisions as to not contesting the validity of patents under which the licenses were granted, or unissued patents under which they might thereafter be licensed, while the licenses were in effect.

Such of these provisions as were in any way criticized by the Court in its opinion had already been eliminated from the agreements after the argument and before the decision in the Court below (R., Vol. II, pp. 732-738). The provisions in question are further described in Appendix B (*infra*, pp. 52-53).

3. Installation of Equipment to Operate under Patents Licensed.

To operate under the patents under which they were licensed it was of course necessary for the secondary defendant licensees to install extensive manufacturing equipment. This equipment necessarily had to be appropriate for carrying on the particular method of cracking operations covered by the patents referred to in the license. While there is no evidence scheduling the actual amount of the investment thus made by each licensee, the royalties paid (R., Vol. II, pp. 784-796), show that such installations have been made. No question has been raised or could be raised as to the fact that these investments in equipment, specially adapted for use under the patents licensed, have been heavy (R., Vol. III, p. 2097).

4. Payment of License Fees in Full.

A number of the secondary defendant licensees, instead of spreading the payments they were making for the immunities they were obtaining over a series of years during the life of the patents, made lump sum payments so that there was nothing further to be done by them under their license agreements. For example, it appears that the Vacuum Oil Company paid New Jersey a lump sum of $200,000, the agreed total royalty for the first two units intended to operate under New Jersey patents (Govt. Exs. 65, 86; R.,

Vol. II, p. 791; Vol. III, p. 1670). Standard Oil Company (Ohio) and Tide Water Oil Company each paid New Jersey a lump sum royalty of $175,000 per operating unit (R., Vol. II, p. 984). The licensor, on the other hand, remained under the obligation to defend the licensee from infringement suits brought by others and to continue to assure to its licensee immunity under the patents licensed, during the life of the patents, and in some of the licenses to afford to the licensee certain protection under certain patents that might be granted for inventions in the future (R., Vol. III, p. 1669).

5. The Respective Situations of the Primary and Secondary Defendants.

As appears from the foregoing, the primary defendants and the secondary defendants belonged respectively to classes whose interests were distinct. The primary defendants in their relations with the secondary defendants were in the position of having certain patent rights to certain inventions and of offering immunity under those patents to persons who desired to make use of the inventions covered by those patents, on the basis of receiving certain payments. The secondary defendants, on the other hand, were members of the public who desired to secure the privilege of using the inventions owned by the primary defendants and were willing to pay for immunity under these patents.

6. The Situation of the Secondary Defendants on the Trial.

As appears from the record, the Government's main attack, on the trial before the Master, was based on allegations of the petition as to the invalidity and/or scope of the patents of the primary defendants which were made

the basis of the agreements between the primary defendants granting cross-licenses under these patents and giving certain rights of sub-licensing. If the Government succeeded on the trial in striking down the patents of the primary defendants, this would have no adverse effect on the secondary defendants. Furthermore, the granting of the relief asked for in the Government's petition, that certain provisions in the licenses to the secondary defendants, which the Government regarded as unduly restrictive of the licensees, be declared null and void (R., Vol. I, pp. 41-42), would also have no adverse effect upon the secondary defendants. The Government on the trial offered no evidence to establish any participation by any secondary defendant in the alleged conspiracy and combination of the primary defendants, claimed to have been constituted by the cross-licensing agreements of the primary defendants.

Under these circumstances, the only interest of the secondary defendants appeared to be in not being improperly adjudicated to have participated in a violation of the Sherman Law. Accordingly, at the final hearing before the Master, when counsel for the secondary defendants appeared for oral argument, and it was stated by the Government to the Master that the Government did not propose to ask for an adjudication against the secondary defendants, counsel for the secondary defendants did not participate in the oral argument (R., Vol. III, p. 2097).

This statement the Government has loyally adhered to. Neither before the Master nor before the Court below did the Government contend that the secondary defendants were parties to any illegal combination or conspiracy.

7. The Final Decree.

Nevertheless, the decree of the Court below not only declared null and void the agreements between the primary defendants and enjoined their observance, but went further and also declared null and void license agreements to secondary defendants (R., Vol. III, p. 2020). It does not specifically identify such license agreements so declared void but refers to them generally as "entered into by the primary defendants with the various secondary defendants pursuant to" the agreements between the primary defendants and as "described particularly in the petitioner's petition." The petition describes as "unlawful" and as forming part of the alleged "combination and conspiracy" all the license agreements to the secondary defendants without distinction (R., Vol. I, pp. 12 and 40), and this fact and the language in the opinion (R., Vol. III, p. 1989, second paragraph) raises some question as to whether the Court below, through a misconception of what was disclosed by the evidence, may not have intended the decree to apply to all the licenses to the secondary defendants.

The provision of the decree voiding some or all of the license agreements to secondary defendants was not requested by the Government in its prayer for relief nor suggested to the Court by the Government in its brief on final hearing or on the hearing preceding the framing of the decree. All that the prayer for relief in the Government's petition asked as to the licenses to the secondary defendants was that certain provisions which the Government deemed unduly restrictive of the licensees be invalidated, leaving the license rights of the secondary defendants intact (R., Vol. I, pp. 41-42); and the brief of the Government on final hearing below (p. 1) stated specifically that the suit was

one to have "certain provisions of contracts and agreements declared illegal in the parts thereof which place restrictions on the production, transportation and sale * * * of 'cracked' gasoline." The Court below of its own motion went further and voided all the rights of the secondary defendants under such secondary licenses as may be covered by the decree and thus deprived such secondary licensees of their immunities under the patents under which the respective licenses were granted and this irrespective of whether such licensees had already paid in full for these immunities. The decree also by implication deprived these licensees of the right to compel their licensors to defend infringement suits brought against them by owners of other patents and of the right to use new inventions made by the licensors, relating to the licensees' equipment and processes.

Specifications of Error.

The various secondary defendant appellants joining in this brief filed assignments of error individually or joined in assignments filed by others (R., Vol. III, pp. 2028-2055). The particular form in which the pertinent assignments were made by each are set forth and classified in Appendix C (*infra*, pp. 54-62). Each of such secondary defendant appellants assigned as error:

(1) The failure of the Court below to dismiss the petition upon the record and facts found as to such appellants;

(2) The failure of the Court below (a) to overrule the exceptions to the Special Master's Report, and (b) to approve the Special Master's Report, so far as the same related to such appellants;

(3) The decreeing by the Court below that the license agreements entered into severally by primary

defendant licensors with such appellants severally, which agreements were referred to in the decree as made "pursuant to and in accordance with" agreements between primary defendants and as being particularly described in the petition, are null and void and in violation of the Sherman Anti-Trust Law;

(4) The decreeing by the Court below that the respective licensors (primary defendants) and licensees (secondary defendant-appellants) under said license agreements be enjoined and restrained from further executing or performing said agreements.

Summary of Argument.

Voiding the licenses of the secondary defendant appellants, deprives them of important protection and rights:

1. The right to call on the licensor for defense of patent litigation.

2. Immunity for future operation under the licensor's patents.

3. The license rights for which the licensee has paid all royalties in full.

4. Warranty by the licensor of immunity under patents other than its own.

A secondary defendant appellant should not be deprived of its rights under a license which relates only to patents of its licensor and, if the decree was intended to apply to such licenses, it is erroneous. Such licenses were in no way connected with, and for the most part preceded in time, the making of any of the agreements between the primary defendants which were found by the Court below to constitute the alleged illegal combination.

Nor should any one of these secondary defendant appellants be deprived of its rights under a license by reason of the fact that its licensor was a party to the agreements between the primary defendants and agreed to extend, in addition to immunity under its own patents, protection under other patents.

1. These secondary defendant appellants were not parties to any combination, if such there was, among the primary defendants, and the licenses were in themselves lawful.

2. Contracts which are not in themselves unlawful, entered into by an innocent third person with a party to an illegal combination, have been held by this Court to be collateral and enforceable *against* the innocent third person. *A fortiori* they should remain enforceable *by* the latter.

If this Court should hold that the act of the licensor in granting a license to a secondary defendant was illegal on the part of a primary defendant, by reason of the participation of the licensor in an illegal combination with the other primary defendants, the license should be decreed to be voidable by the innocent licensee, but not void. When the conduct of only one party to a contract is illegal, the innocent party should not be deprived of its rights.

If the Court below felt itself constrained to adjudge the licenses to secondary defendants null and void, it should at least have endeavored to work out a form of injunctive relief which would have given the innocent licensees some protection in the altered situation which the decree was creating.

A court of equity under the Sherman Anti-Trust Law has the power and duty to mould its decree upon the realities of the situation and to protect rights which have accrued.

If this Court deems improper any of the provisions of the licenses to these secondary defendant appellants claimed by the Government to be unlawfully restrictive, the decree should, we submit, be confined in that respect specifically to enjoining the primary defendants from enforcing such provisions, without striking down the whole of such licenses. This Court has followed that course in analogous situations.

ARGUMENT.

POINT I.

Voiding the licenses of the secondary defendant appellants deprives them of important protection and rights.

1. Right to call on the licensor for defense of patent litigation.

Most of the license agreements held by the secondary defendants provided that the licensor should defend any patent litigation brought against the patent licensee for operations conducted under its license. This is part of the consideration for which royalties have been paid. The primary defendant licensor has received, through those royalties, payment in full for this obligation to defend patent litigation growing out of past operations. The decree releases the primary defendant licensor from that obligation and indeed enjoins the primary defendant from carrying out that obligation if it so desired. Such provision for defense of infringement suits is a customary and legal provision in a license agreement. "It is but an assurance of title to the rights conveyed". *Virtue* v. *Creamery Package Manufacturing Company*, 227 U. S. 8, 33, (1913). That the burden of defending such patent litigation in the in-

volved field of gasoline cracking patents is not illusory, is seen from the fact that such a litigation is already in progress between one of the parties to this suit and a plaintiff not a party here (R., Vol. II, p. 862).

2. Immunity for future operation under the licensor's patents.

Under its license agreement, considered solely as relating to the patents of its immediate licensor, a secondary defendant now has a right to conduct its cracking operations in the future under the patents of that licensor. The licensee also has the right to use improvements made by the licensor in the operations covered by its patents. If this decree is affirmed in its present form and the secondary defendant's license is thereby annulled, it immediately is exposed to a claim that it is an infringer of the licensor's patents if it continues operations; nor will there be any obligation upon the part of its licensor to license the secondary defendant for future operations. Further, the secondary defendant is put in an obviously disadvantageous position for bargaining for such a new license by reason of the fact that it has naturally procured costly equipment for operating under the patents of its licensor, and, being committed to that method of operation, must either scrap its plant or accept such terms as the owner of the patents may be willing to make, if any. Moreover, this suit, through the failure of the Government's attack upon the patents of the primary defendants, leaves the primary defendant licensor in a strengthened position in any such negotiation.

3. License rights paid for in full.

The decree strikes down the license rights of the secondary defendant appellants not merely in cases where

there is a continuing royalty to be paid for the immunity conferred as to future operations, but also *where the licensee has already paid in full for immunity during the whole life of the patents* (*supra*, p. 10). It, therefore, takes away from such innocent licensee an immunity for which it has already paid in full, and this alteration in the situation of such innocent licensee operates in favor of a licensor which the Court below found to be engaged in a violation of law.

4. Warranty by licensors of immunity under patents other than their own.

In certain licenses granted by individual primary defendants to individual secondary defendants who are among these appellants, the licensor granted licenses not only under patents owned by itself, but also under patents not owned by it (Appendix A, Groups IV, V and VI, pp. 49-51 *infra*). In certain instances the primary licensor supplemented licenses previously given under its own patents by licenses on limited terms under the patents of others (Appendix A, Group III, p. 50 *infra*). In granting such license under patents other than its own, the licensor represented, and, in at least one instance, expressly warranted (R., Vol. III, p. 1607), that it had the right to extend immunity under these patents.

Such a license under the patents of others was important to the licensee for two reasons:

First, it purported to protect the licensee against any claim for infringement by the owners of these other patents, while operating under the patents of its licensor. It is clear from the evidence and from the Master's report that, in the complicated processes of the cracking art, the question of infringement was important. While a certain step in the

cracking procedure as practiced by a licensee might fall only under the patents of a particular patent owner, an intimately associated further step, equally necessary commercially, might be covered by the claims of the patents of another patent owner. For a secondary defendant who was investing money in equipment and thereby committing itself to the practice of certain commercial processes, it was important not only to have protection against the particular primary defendant whose patents were mainly applicable, but also against claims by others that in some or many particulars of its operation their patents also would be infringed. The situation is illustrated by the patent litigation begun against one of the secondary defendants, The Pure Oil Company, a licensee of Gasoline Products, by another primary defendant, at a time when its license was confined to the Gasoline Products patents only (R., Vol. II, p. 839).

Second, to meet this state of things, these licenses purported to give immunity to the licensee to make use of commercially valuable apparatus and devices not covered by the patents of the licensor. For example, Gasoline Products pointed out to its licensees that, by the arrangement it had made, they might, without fear of infringement suits, avail themselves of the important Bubble Tower inventions of Indiana in connection with the Cross Stills which were covered by the Gasoline Products patents (R., Vol. II, p. 1353). Provision for cracking equipment is indispensable under modern conditions to enable a refiner to remain in business. He must use cracking processes to supplement straight run refining processes. In 1925 about 26% of the gasoline output of the country was produced by cracking.

(Master's Report, R., Vol. I, p. 607.) It is obvious that no refiner whose gasoline yield from a given quantity of crude oil was cut down 26% could compete with rivals who were able to secure the maximum yield. Under the pressure of competitive conditions there was every reason for the licensee in investing in equipment to take full advantage of the scope of the patent immunities which it was paying for and which were conferred by its license.

Annulling the licenses of these secondary defendant appellants, unless the decree be modified to afford them protection, would leave them open to a claim that they are in a position of infringers under all the patents other than those of their own licensor, if they continue their operations. Here also, insofar as they have put in equipment to make use of the protection purported to be afforded by their licenses, they are in a disadvantageous position to negotiate for the future with the owners of these other patents. Further, nullifying the license deprives them of the protection of holding their licensor to its warranty of its right to confer the specified immunity under these other patents. The licensee is deprived of that protection, even though it has paid in full for this warranty of future immunity by the payment of commuted royalties. No protection whatever is afforded to such rights by the decree nor does the decree in any way alleviate the situation in which the licensees are placed by this voiding of licenses entered into by them in the ordinary course of business and in entire good faith.

5. The result of the decree.

The decree, as it stands, therefore, reaches this extraordinary result: The secondary defendant appellants are of the class of the public which is directly affected by the agreements among the primary defendants. But the decree, instead of affording them protection, strikes down rights for which they have paid, leaves them with the patent position of the primary defendants intact and indeed strengthened, exposes them immediately to a claim that they are infringers as to future operations, and leaves them to make the best new bargain they can, if any, in the disadvantageous bargaining position of having already been committed by their investments in equipment to the continued use of the patents of some or all of the primary defendants.

Under these circumstances, the Court below has obviously failed to mould its decree to correspond with the realities and equities of the situation.

POINT II.

These secondary defendant appellants should not be deprived of their rights under licenses which relate only to patents of their respective licensors and, if the decree was intended to apply to such licenses, it is erroneous.

The Court below found the alleged vice in the situation presented by the evidence to be in the provisions of the cross-license agreements between the primary defendants. The alleged impropriety of the terms of these agreements between the primary defendants certainly cannot affect a

license which a secondary defendant obtained from a primary defendant prior to the execution of any cross-license agreement by such licensor and which conferred immunities solely under the patents of the licensor. Nor can it affect agreements made after such execution which were merely supplemental to such prior licenses or related solely to the patents of the licensor.

In *Virtue* v. *Creamery Package Manufacturing Company*, 227 U. S. 8 (1913), where there was an agreement admittedly in violation of the Sherman Law between various corporations, the plaintiff attempted to impute that illegality to another contract, legal in itself, which one of the members of the combination had previously made with a third party. It was held that no such illegality could be imputed either to such earlier contract or to supplemental modifications of it made after the making of the illegal combination.

In the instant case, the decree did not specify the particular licenses to secondary defendants which were intended to be declared null and void. None of the licenses dealt with in this Point II clearly appear to be within the language of the decree when read in connection with the evidence. On the other hand, the decree, when read in connection with the petition and the opinion, is ambiguous enough to make the secondary defendant appellants feel that the point should be presented to this Court.

The decree provides (R., Vol. III, pp. 2020-2021):

> "... that the agreements entered into by the primary defendants with the various secondary defendants, pursuant to and in accordance with said void agreements of the primary defendants, and described particularly in the petitioner's petition, are hereby declared to be null and void" ...

By this language, agreements with secondary defendants entered into "pursuant to and in accordance with" the cross-licensing agreements among the primary defendants are declared to be void, but reference is made to the petition to determine which of the licenses to the secondary defendants fall within this category. The petition, however, does not charge that any particular licenses to secondary defendants have been entered into "pursuant to and in accordance with" the cross-licensing agreements between the primary defendants.

Resorting to the opinion for light, the Court, describing the agreements with the secondary defendants, says (R., Vol. III, p. 1989):

> "The primary defendants executed certain so-called cross-license agreements. The secondary defendants *thereafter* took sub-licenses from one or the other of the primary defendants." (Italics ours.)

This use of the word *thereafter* seems to indicate that the Court was under the misconception that all of the licenses to secondary defendants were entered into *after* the execution of *all* the cross-licensing agreements among the primary defendants. From the evidence, however, it appears that in fact 17 of the 32 license agreements "described particularly in the petitioner's petition" granted to different secondary defendants who have joined in this brief, were entered into *prior* to the execution of the *first* cross-licensing agreement between any of the primary defendants, namely that between Indiana and Texas, made on August 26, 1921, and many of them a number of years before that date (Appendix A, Group I, *infra*, p. 48). If it had not been laboring under the misconception above referred to, the Court would naturally have dismissed the petition

against the secondary defendants whose only licenses were taken prior to that date. But this it did not do.

Again, after the date of the first cross-license agreement, three licenses were executed by New Jersey and six licenses by Gasoline Products to secondary defendants who have joined in this brief (Appendix A, Groups II and III, *infra*, p. 49) before these licensors become parties to any cross-license agreement, each such license being solely under the patents of the particular licensor. Here then were 26 licenses which could not have been granted "pursuant to and in accordance with" the cross-licensing agreements between the primary defendants. Indiana, after the date of its first cross-license agreement with Texas (Govt. Ex. 31; R., Vol. II, p. 1315) also issued a supplemental license to a licensee modifying a license granted before that date but still dealing solely with the patents of Indiana (Govt. Ex. 57; R., Vol. III, p. 1600); and Gasoline Products, after it had entered into its first cross-license agreement (Govt. Ex. 55; R., Vol. III, p. 1579) granted one license solely under its own patents to one of these secondary defendants (Govt. Ex. 58; R., Vol. III, p. 1602). None of the 28 licenses thus enumerated could properly have been voided on the view of the transaction expressed by the Court below, nor do they fall within the language of the decree if interpreted in the light of the evidence.

Therefore, even under the view of the law taken by the Court below, the decree is either erroneous because it voids licenses to secondary defendants granted only under patents of the respective licensors and so not made "pursuant to the agreements" between the primary defendants, if the decree be interpreted as applying to such licenses, or else, if the decree be interpreted as excluding such licenses

from its operation, it is erroneous because it fails to dismiss the petition as against such secondary defendants as held such licenses and no others.

POINT III.

Nor should any one of these secondary defendant appellants be deprived of its rights under a license by reason of the fact that its licensor was a party to the cross-licensing agreements and agreed to extend, in addition to immunity under its own patents, protection under other patents.

After the primary defendants entered into the cross-licensing agreements with each other, which were deemed objectionable by the Court below, there were licenses granted to some secondary defendants under which the licensee received a license from its licensor under patents which were owned by other primary defendants as well as under patents which the licensor owned itself (Appendix A, Groups IV, V and VI; *infra*, pp. 49-51).

There was nothing in such secondary license agreements which disclosed to the licensee that there was anything more to the transaction than that the licensor, in order to obtain royalties, was offering protection under a list of patents which related to, or would be useful in, the cracking operations which the licensee desired permission to undertake.

In certain instances also, as already stated, where the original license agreement related solely to patents of the immediate licensor, the rights of the licensees were subsequently amplified by a voluntary grant from the licensors of rights under patents belonging to another primary de-

fendant. These licenses to secondary defendants who have joined in this brief were those enumerated in Appendix A, Group III (*infra*, p. 49). No additional royalty was charged to the secondary defendant licensees for this additional grant, nor was there anything in any of the letters extending the additional immunity which informed the licensees of any of the provisions of the primary agreements which were found unlawful by the Court below. The effect of these letters was to assure such secondary defendants that they could safely go ahead with the installation of equipment under their original licenses without further fear of suit for infringement under the patents of other primary defendants. One such suit for infringement had already been begun against one of the secondary defendant licensees (R., Vol. II, p. 839). It also made it possible for them to install additional commercially useful apparatus in connection with the operation of the cracking method they were employing under the license which they already held (R., Vol. III, p. 1398).

If this Court should find that the cross-licensing agreements among the primary defendants were illegal, this is not ground, we submit, for depriving any one of these secondary defendant appellants of its rights under a license contract entered into by it independently and innocently with a primary defendant:

1. These secondary defendant appellants were not parties to any combination.

The Court below in its opinion clearly indicates that the violation of law which it found in this case arose from the agreements between the primary defendants which it characterized as pooling and price-fixing agreements (R., Vol. III, pp. 2017-2018). Nowhere in its opinion does the

Court indicate that it regarded the secondary defendants as in any way parties to such a violation. There was no evidence offered at the trial on which the Court could base any holding that they were such parties.

All that the evidence indicates as to the secondary defendants, who have joined in this brief, is that each was a refiner desiring to use cracking processes to increase its yield of gasoline and that each individually entered into a contract with a particular licensor who claimed it had the right to confer certain immunities under certain specified patents relating to cracking operations. None of these secondary defendants dealt with any group of primary defendants. It dealt with an individual licensor and contracted to secure the immunities offered to it on certain specified terms. This was an ordinary business transaction between a licensor and a manufacturer who desired to use inventions covered by certain patents. There was no community of interest between the secondary defendants and the primary defendants. In fact, their interests were diametrically opposed. The primary defendant licensor was contracting to grant immunity under certain patents on certain terms; the secondary defendant licensee was contracting to pay for such immunities by royalties. The two classes dealt with each other as much at arms' length and with as contrasting interests as did the parties in *Small Company* v. *Lamborn & Company*, 267 U. S. 248 (1925), and in similar cases, in which a party to a combination sold commodities to an innocent stranger.

The Government had granted certain patent monopolies covering cracking operations. By obtaining a non-exclusive license the licensee was freed from the limitation imposed by those monopolies upon its commercial operations. The broader the scope of the license and the larger the number

of patents relating to the art which it covered, the greater the freedom to the licensee in the selection of method and apparatus and the greater its security against infringement suits. By no stretch of the imagination can the action of a secondary defendant engaged in the manufacture of gasoline in taking such a license be regarded as effecting a restraint of the commerce of the United States in gasoline. Instead, taking and operating under that license enabled it to introduce into the stream of commerce products which the patent action of the Government had indicated that such refiner was not otherwise free to manufacture in the way which was commercially best suited to its needs. From the licensee's standpoint, it was immaterial whether its licensor owned all the rights to license under all the patents against which the licensee was being assured of immunity or, as to some of such patents, held only limited rights to sub-license. The vital thing to the licensee was to have assurance of immunity under patents which otherwise served as a restraint upon its freedom of action.

While there was a general allegation in the petition that the secondary defendants, through fear of the hostility of the primary defendants, became parties to the unlawful combination, there was not a scintilla of evidence offered at the trial to support this allegation, and as already stated, at the time of the argument before the Master, counsel for the Government specifically stated that it did not intend to ask for any adjudication against the secondary defendants (R., Vol. III, p. 2097). The secondary defendants, on the faith of that statement, took no part in the argument. The Government, as we have pointed out, has since lived up to its statement. There was nothing in its briefs before the Master or the Court below which made

any claim that the secondary defendants were parties to the alleged combination and conspiracy.

In adjudging in its decree that the license agreements described in the petition "entered into by the primary defendants with the various secondary defendants, pursuant to and in accordance with the said void agreements of the primary defendants" were null and void and in violation of the Sherman Law, it seems clear that what the Court below had in mind was that the illegality, which it found with respect to such a license agreement, lay in its finding that the *primary defendant* had entered into it "pursuant to" the agreements between the primary defendants which the Court found to be objectionable. On the other hand, as has been said, the Court nowhere in its opinion finds such a license agreement with a secondary defendant in any way unlawful in itself. In fact its opinion recognized that the licensing of patents, which is what such a license agreement constituted, is in itself lawful (R., Vol. III, p. 2002). It would be a curious perversion of the spirit and objects of the Sherman Law to hold that when the public satisfies its needs by buying from an alleged illegal combination it thereby commits a crime. There is nothing to indicate, either in the opinion or the decree, that the Court below regarded the secondary defendants, *on their part*, as having acted unlawfully in taking their individual licenses. The propriety of their action could not be affected by improper provisions of the agreements among the primary defendants to which they were in no way parties. If the Court did have any other conclusion in mind, neither the opinion nor the record reveals any evidence whatever on which to base it.

2. Contracts which are not in themselves unlawful, entered into by an innocent third person with a party to an illegal combination, have been held by this Court to be collateral and enforceable *against* the innocent third person. *A fortiori* they should remain enforceable *by* the latter.

This Court has held that where a third party enters into an agreement not in itself invalid with a member of an alleged illegal combination under the Sherman Law, the third party cannot take advantage of the illegality of the combination as a defense to his contract.

> *Small Company* v. *Lamborn & Company*, 267 U. S. 248, 252 (1925);
> *Wilder Manufacturing Co.* v. *Corn Products Refining Company*, 236 U. S. 165, 172 (1915);
> *Connolly* v. *Union Sewer Pipe Co.*, 184 U. S. 540 (1902).

In each of these cases the right of a member of an illegal combination in restraint of trade to enforce a contract against a third party was upheld.

In *Small Company* v. *Lamborn & Company, supra*, this Court said, at page 252:

> "* * * it was not shown that the contracts were in themselves invalid under the Anti-Trust Act, but only that they were collateral to a combination prohibited by it. * * * As has been pointed out in prior cases, there is nothing in the Anti-Trust Act which invalidates such a collateral contract or relieves the buyer from his obligation under it. * * * It is only where the invalidity is inherent in the contract that the Act may be interposed as a defense."

In *Wilder Manufacturing Co.* v. *Corn Products Refining Company, supra*, Chief Justice White said, at page 172:

> "* * * courts may not refuse to enforce an otherwise legal contract because of some indirect benefit to a wrongdoer which would be afforded from doing so or some remote aid to the accomplishment of a wrong which might possibly result * * *"

See also *Milliken Tomlinson Co.* v. *American Sugar Refining Co.*, 9 F. (2d) 809, 816 (C. C. A. 1st Cir., 1925); *Higgins* v. *California Prune & Apricot Growers, Inc.*, 16 F. (2d) 190, 194 (C. C. A. 2d Cir., 1926), writ of certiorari dismissed 273 U. S. 781 (1927).

These cases related to sales either executed or executory, but the application of the principle is not confined to such a state of facts.

In *The Charles E. Wisewall*, 74 Fed. 802 (D. C. N. D. N. Y. 1896), aff'd. 86 Fed. 671 (C. C. A. 2nd Cir. 1898), and cited with approval in *Connolly* v. *Union Sewer Pipe Co., supra*, at page 551, the contract was one for services of a tug for towage purposes. It was held in that case that one to whom the services were rendered could not avoid payment on the ground that the tug owners were members of an association illegal under the Sherman Law.

In the case at bar the licensor holds itself out as having the right to grant certain immunities under certain patents which it is prepared to grant for the life of those patents on the payment of royalty either in a certain lump sum or in payments spread over a number of years. The licensee, the third party, having nothing to do with the alleged illegal combination, pays or agrees to pay such royalty for the immunity so offered. If in such cases as are cited above an innocent third party could not avail himself of the defense of illegal conduct of the party to the combination to relieve himself of liability to such party, it would seem, *a fortiori*, that such innocent third party should not be deprived of

the right to *enforce* the obligations which the party to the alleged illegal combination had assumed.

As we should expect, therefore, such a contract has been held to be enforceable in favor of the innocent third party where the question has arisen. *Carter-Crume Co. v. Peurrung*, 86 Fed. 439 (C. C. A. 6th Cir., 1898), opinion by Lurton, J., afterwards Mr. Justice Lurton. In that case suit was brought to recover an overdue payment under a written contract for the payment of money entered into between the plaintiff's assignor, a firm then engaged in the business of jobbing wooden ware, and the defendant, a corporation manufacturing wooden ware. There was some evidence to the effect that the contract was made and intended by Carter-Crume Co., the defendant, as one step in a general illegal scheme for monopolizing the trade in wooden ware and controlling prices. The Court, holding for the plaintiff, said, at page 442:

> "But, if each independent producer contract to sell his product, or to sell or lease his plant, without concert with others, or knowledge of or purpose to participate in the plans of the buyer, he cannot be said to have conspired against freedom of commerce, or to have made a contract in illegal restraint of trade. The transaction with Peurrung Bros. & Co. was, on its face, legitimate, and it cannot be impeached simply by evidence that the Carter-Crume Company understood and intended it as one step in a general illegal scheme for monopolizing the trade in wooden butter dishes, and controlling prices."

In *Continental Wall Paper Company* v. *Louis Voight and Sons Company*, 212 U. S. 227 (1909), this Court, on the other hand, sustained the defense of illegality pleaded by

a vendee in a suit brought by the vendor. But in that case, however, this Court found that under the pleadings the agreement sued on "was intended by the parties to be based upon agreements that were and are essential parts of an illegal scheme." The Court distinguished that situation from the *Connolly* case as follows, p. 260:

> "The present case is plainly distinguishable from the *Connolly Case*. In that case the defendant, who sought to avoid payment for the goods purchased by him under contract, had no connection with the general business or operations of the alleged illegal corporation that sold the goods. He had nothing whatever to do with the formation of that corporation, and could not participate in the profits of its business. *His* contract was to take certain goods at an agreed price, nothing more, and was not in itself illegal, *nor part of nor in execution of any general plan or scheme that the law condemned.* The contract of purchase was wholly collateral to and independent of the agreement under which the combination had been previously formed by others in Ohio. It was the case simply of a corporation that dealt with an entire stranger to its management and operations and sold goods that it owned to one who wished to buy them." (Italics in original.)

In the light of the foregoing cases, no one of these secondary defendant appellants, licensees and innocent third parties, should be deprived of its rights under its license on the ground of illegality where the alleged illegality was in other agreements in which the licensee in no way participated.

POINT IV.

If this Court should hold that the act of the licensor in granting a license to a secondary defendant was illegal on the part of a primary defendant, by reason of the participation of the licensor in an illegal combination with the other primary defendants, the license should be decreed to be voidable by the innocent licensee, but not void.

The opinion of the Court below in no way forecast the provision in the decree declaring the licenses to secondary defendants obtained from primary defendants to be null and void, nor was any such relief asked by the petition or in the form of decree submitted by the Government. If the Court below felt that it was constrained to declare the licenses to the secondary defendants null and void because a primary defendant was engaged in an illegal act through its participation in the primary agreements which the Court found to be illegal, it was unnecessarily doing violence to the equities of the situation. If it thought that the secondary defendants under the circumstances should be relieved from the operation of such a contract, it could have accomplished its objective by declaring the contract voidable at the election of the innocent licensee.

A contract which is entered into illegally by one party but innocently by another is not necessarily void. This principle is very clearly brought out by Mr. Williston in his work on *Contracts*, Sec. 1630:

> "It is commonly said that illegal contracts and agreements are void. This statement, however, is clearly not generally accurate. It is true that a court

could only under very exceptional circumstances enforce specifically an illegal agreement, but the rule of public policy that forbids an action for damages for breach of such an agreement is not based on the impropriety of compelling the defendant to pay the damages; in itself that would generally be a desirable thing. When relief is denied it is because the plaintiff is a wrongdoer, and to such a person the law denies relief. * * * It will be observed that Lord Mansfield rests the denial of recovery on an illegal agreement upon the illegality of the plaintiff's conduct, not the nature of the transaction.

"* * * To go farther and assert that all unlawful agreements are *ipso facto* no contracts and void is opposed to many decisions and unfortunate in its consequences, for it may protect a guilty defendant from paying damages to an innocent plaintiff. Doubtless a statute may and sometimes does make an agreement absolutely void, but even though a statute so states in terms, void has sometimes been held to mean voidable, and unless no other conclusion is possible from the words of a statute it should not be held to make agreements contravening it totally void."

This Court in *Gibbs & Sterrett Mfg. Co.* v. *Brucker*, 111 U. S. 597 (1884), had occasion to consider the rights of an innocent plaintiff, where the other party to the contract had executed it on Sunday, and, had *he* been suing, could not have recovered. It was held that the contract was enforceable by the plaintiff in spite of the unlawful act of the defendant in its execution. This Court said at page 601:

"If * * * the evidence shows a good cause of action without any participation of the plaintiff in an illegal transaction, he may recover, the law simply refusing its aid to either party in giving effect to an

illegal transaction in which he has taken part. *Tuckerman* v. *Hinckley*, 9 Allen, 452; *Stackpole* v. *Symonds*, 3 Foster (23 N. H.) 229; *Bloxsome* v. *Williams*, 3 B. & C. 232; *Roys* v. *Johnson*, 7 Gray, 162."

So here, even if this Court should find that in granting a license to any one of these secondary defendant appellants, the primary defendant was not acting collaterally, but was acting illegally in violation of the Sherman Law, the licensee, having entered into such contract innocently, and being in no way a party to the alleged illegal combination, should not be prevented from electing to enforce such contract if it deems it in its interests to do se. The situation is analogous to one familiar in the law where the innocent party to a contract induced by fraud can disaffirm or stand upon the contract at his election. *United States* v. *Oregon Lumber Co.*, 260 U. S. 290, 294 (1922).

It may be objected that should the primary agreements, under which the licensor obtained a right to sub-license under patents other than its own, have been declared null and void, the provision in the license to the secondary defendant by which a primary defendant licensor agrees to confer immunity on a secondary defendant licensee under such other patents could not stand. But this does not follow. At least the remedy of the licensee against its licensor should be preserved. The licensor has in effect contracted that the licensee shall have immunity, to the limited extent provided for in the license, under the patents of others. It should not be excused from the obligations of that contract simply because its contracts with other primary defendants, on which it was relying, are declared void for illegality in which it participated. Further, to meet the practical exigencies of the situation and afford the inno-

cent licensee the degree of protection to which it would seem fairly entitled, we submit that, while the secondary licensees are complying with the terms of the licenses, the Court should have enjoined those other defendants from suing these secondary defendants for infringement, inasmuch as such other defendants had made it possible for the licensor to hold itself out as authorized to grant limited immunity under their patents.

It may be objected that to permit the secondary license to continue in effect at the election of the licensee would be to allow the parties to the alleged illegal combination to continue to obtain the benefit of their alleged illegal action. There are two answers to this objection:

(1) It has no application whatever to the situation where the secondary licensee has already fully paid up the royalties.

(2) Where royalties are continuing, the secondary licensee is paying for continuing immunity under patents which are outstanding and which the result of this case indicates are valid. A possible benefit to a wrongdoer would seem no reason for compelling the secondary defendant to re-negotiate its license contract and expose it to the possibility of having to pay royalty at a higher rate than that provided for in the license which it now holds.

Again it may be objected that the secondary defendants should not have the right to use the patents of the primary defendants, other than their licensors, because these other primary defendants, if the primary agreements are annulled, would be unable to receive payments as contemplated from the licensor. The District Court in its decree may well be able to adjust whatever equities there are in this situation, but possible hardship to the participants

in an alleged combination found illegal would not seem to be any reason for depriving the innocent licensee of its rights against its licensor, including the warranty of immunity under the patents of others which its licensor has given it and on the faith of which it has invested in equipment and paid royalties.

POINT V.

If the Court below felt itself constrained to adjudge the licenses to secondary defendants null and void, it should at least have endeavored to work out a form of injunctive relief which would have given them some protection in the altered situation which its decree was creating.

The Court below by declaring null and void the licenses to the secondary defendants has stricken them down in their entirety without affording the innocent licensee any protection in the altered situation it was creating. By so doing it left these licensees in a wholly anomalous situation, committed to certain methods of operation by heavy expenditures for equipment and yet without the immunity from suits under patents for which they had bargained and in reliance upon which they had made these investments. The equities of this situation certainly demanded that the Court below should have endeavored to work out some practical measure of injunctive relief to protect innocent licensees from what otherwise would be obviously unjust effects of its decree.

Certainly the Court, if it was annulling a license to a secondary defendant who had already paid in full for immunity under the license during the life of the patents, should have protected the licensee by injunction against the

bringing of suit for infringement by primary defendants as to future operations within the terms of the license. There would seem to have been no obstacle whatever to such injunctive relief. Again, where there is a continuing license and where secondary defendants have invested heavily in equipment to operate under particular patents of primary defendants, the innocent licensees, if their licenses were to be annulled, should have been afforded some form of injunctive relief against suits for infringement, while using this equipment to which they had committed themselves on the faith of the licenses. While a provision to that effect would have entailed a careful working out of the situation by the Court below, it was essential that such a provision be worked out if the effect of the decree was not to put the licensees, members of the class of the public directly affected by the alleged illegal combination, at a grave disadvantage as a result of the suit.

POINT VI.

A court of equity under the Sherman Anti-Trust Law has the power and duty to mould its decree upon the realities of the situation and to protect rights which have accrued.

In *Northern Securities Co.* v. *United States*, 193 U. S. 197 (1904), this Court, in affirming a decree dissolving the Northern Securities Company as a combination in violation of the Sherman Law, said, at page 360:

> "This, it must be remembered, is a suit in equity, instituted by authority of Congress 'to prevent and restrain violations of the act', Sec. 4; and the court, in virtue of a well settled rule governing proceedings in equity, may mould its decree so as to accomplish

practical results—such results as law and justice demand."

In *Standard Oil Co.* v. *United States*, 221 U. S. 1 (1911), this Court, in discussing the nature of the relief to be afforded the Government in that suit, said, at page 78:

> "In applying remedies for this purpose, however, the fact must not be overlooked that injury to the public by the prevention of an undue restraint on, or the monopolization of trade or commerce is the foundation upon which the prohibitions of the statute rest, and moreover that one of the fundamental purposes of the statute is to protect, not to destroy, rights of property."

In *American Tobacco Co.* v. *United States*, 221 U. S. 106 (1911), this Court, in discussing the relief to be afforded the Government, said in its opinion, at page 185, that the following "three dominant influences" must guide its action:

> "1. The duty of giving complete and efficacious effect to the prohibitions of the statutes; 2, the accomplishing of this result with as little injury as possible to the interest of the general public; and, 3, a proper regard for the vast interests of private property which may have become vested in many persons as a result of the acquisition either by way of stock ownership or otherwise of interests in the stock or securities of the combination without any guilty knowledge or intent in any way to become actors or participants in the wrongs which we find to have inspired and dominated the combination from the beginning."

Thereafter the case was remitted to the Circuit Judges, with instructions in substance to frame a decree which

should do justice to all parties. The results of the action of the Circuit Judges are set forth in *United States* v. *American Tobacco Co.*, 191 Fed. 371 (1911). The Attorney General had requested that the decree should rescind or otherwise terminate all contracts or covenants between the American Tobacco Company and any other companies in the combination. It appeared that certain valuable brands had been sold outright to certain of the minor defendants. In refusing to grant the request of the Government, the Court, at page 380, said:

> "The brands thus sold passed to the purchaser for a valuable consideration under an executed contract. The request is denied."

This finding particularly related to the British-American Tobacco Company, which had purchased and paid for certain trademark immunities. In order to protect the property interest of the licensee in the brands and trademarks in question, the following proviso was included in Section B of the decree, which section abrogated as illegal the restrictive covenants in the agreements of the combination with certain of the foreign companies, including the British-American Tobacco Company (p. 418):

> "* * * each company to treat as its own, but only to the extent provided for in said contracts, all brands and trade-marks which by said contracts it was given the right to manufacture and sell, the said rights having been perpetual and constituting in effect a conveyance of the brands and trade-marks used for the countries in which they were so used by each of said companies as aforesaid."

The instant case presents an even stronger situation. Here the secondary defendants are not parties to the

illegal combination but innocent members of the public dealing individually at arms' length with the various patent owners and in normal course of business acquiring in the ordinary manner certain rights important in the conduct of their commercial affairs. For them to be deprived of those rights, thus acquired, without any safeguards whatever, because their licensor was found by the Court below to be engaged with others in an illegal transaction seems to be contrary to the whole object and spirit of the Sherman Law.

POINT VII.

If this Court deems improper any of the provisions of the licenses to these secondary defendant appellants, claimed by the Government to be unlawfully restrictive, the decree should, we submit, be confined in that respect specifically to enjoining the primary defendants from enforcing such provisions, without striking down the whole of such licenses.

1. Neither the petition (R., Vol. I, pp. 41-42) nor the Government's brief on final hearing in the court below asked that the secondary agreements be declared null and void, but merely that certain provisions in such agreements, thought to be unduly restrictive of the secondary defendants, should be invalidated.

2. There is no legal difficulty in this course. In *United Shoe Machinery Corporation* v. *United States*, 258 U. S. 451 (1922), this Court passed upon the validity under the Clayton Act of certain restrictive provisions contained in leases of patent shoe machinery. It did not declare the leases void. It simply voided the illegal restrictive pro-

visions, thereby protecting the property rights in the leases which the lessees had properly obtained.

So also *United States* v. *Reading Company*, 253 U. S. 26 (1920), in which this Court found that certain companies had combined to restrain trade and commerce and pursuant thereto had incorporated covenants in leases made by them obliging the lessees to ship all coal mined by certain rail routes. The lower court did not declare the leases null and void, but restrained the lessors from attempting to enforce these illegal covenants, and its decree in this respect was affirmed by this Court.

3. While there was a vigorous attack by the Government on various restrictive provisions in the license agreements, the Court below, in its opinion, indicated that only two classes of restrictions were improper. They are as follows:

> (a) Agreements by which a company agreed to sell to another a certain amount or proportion of gasoline manufactured by it, which covenant was "not restricted to gasoline manufactured by any process covered by any patent" (R., Vol. III, p. 2014). No such provision is contained in any of the licenses to the secondary defendants.
>
> (b) Agreements which provide that the contracting parties shall acknowledge the validity of all patents that may be issued to the other "as and when issued under which it becomes licensed hereunder" (R., Vol. III, pp. 2014-2015). The agreement to which the opinion of the Court specifically refers in this regard is an agreement among primary defendants. There were, however, similar provisions in a number of the licenses to secondary defendants, obligating the licensee to acknowledge the validity of patents which might in the future be issued to a licensor. The question of the pro-

priety of such a restriction has become moot in this case because, as appears from the record, the primary defendants have waived these provisions, so that they no longer form part of the contracts (R., Vol. II, pp. 732-738).

There are, therefore, no restrictive provisions in effect in any license agreements to which these defendants are parties, of a nature indicated by the Court below to be improper.

POINT VIII.

The decree should be reversed in so far as it declares the agreements entered into by the primary defendants with these secondary defendant appellants to be null and void and enjoins the defendants from further performing the same; or if this Court finds that such agreements were illegal on the part of the primary defendants, then the decree should be modified by adjudging such agreements not void but voidable as to these secondary defendant appellants. In any event, the decree should be modified so as to protect by proper injunctive provisions the rights acquired by these appellants under such agreements.

Respectfully submitted,

CHARLES A. KREPS,
Of Counsel for The Pure Oil Co.

WALTER G. KIRKBRIDE,
Of Counsel for The Hickok Producing Co.

OSCAR J. DORWIN,
Of Counsel for Indian Refining Company.

W. H. FRANCIS,
G. H. DORR,
Of Counsel for Magnolia Petroleum Company.

FRANK L. CRAWFORD,
Of Counsel for Beacon Oil Company and Owl Oil Company.

S. A. MITCHELL,
Of Counsel for Roxana Petroleum Corporation.

WILLIAM A. MCAFEE,
Of Counsel for The Standard Oil Company (Ohio).

ALBERT L. HOPKINS,
Of Counsel for Solar Refining Company.

OSCAR SUTRO,
RICHARD E. DWIGHT,
Of Counsel for Standard Oil Company of California.

R. E. LAMBERTON,
Of Counsel for Sun Oil Company.

PETER M. SPEER,
C. A. THOMPSON,
G. H. DORR,
Of Counsel for Standard Oil Company of New York.

JAMES J. COSGROVE,
Of Counsel for Sapulpa Refining Company.

EARLE W. EVANS,
Of Counsel for Standard Oil Company (Kansas).

CHARLES G. MIDDLETON,
Of Counsel for Standard Oil Company (Kentucky).

FRANCIS I. FALLON,
Of Counsel for Tide Water Oil Company and Tidal Refining Company.

BURTON W. MUSSER,
Of Counsel for Utah Oil Refining Company.

GEORGE V. HOLTON,
Of Counsel for Vacuum Oil Company.

G. J. NEUNER,
Of Counsel for Waite Phillips Company.

J. MERRILL WRIGHT,
Of Counsel for Waverly Oil Works Company.

JAMES P. KEM,
G. H. DORR,
Of Counsel for White Eagle Oil and Refining Company.

December 17, 1930.

Appendix A.

Classification of Licenses.

Group I. Licenses granted by Indiana to the secondary defendant appellants joining in this brief prior to the first cross-license agreement (Govt. Ex. 31, dated August 26, 1921; R., Vol. II, p. 1315):

Secondary Defendant Appellants Licensees	*Govt. Ex. No.*	**Place in Record*	*Date*
Standard Oil Company (Kansas)	2	II, 1033	Feb. 1, 1914
	11	II, 1112	Feb. 1, 1917
Solar Refining Company	3	II, 1041	June 2, 1914
	7	II, 1074	June 2, 1916
	30	II, 1308	July 1, 1921
Magnolia Petroleum Company	6	II, 1066	Dec. 31, 1915
	14	II, 1140	Jan. 1, 1918
	57	III, 1600	Mar. 2, 1923
Standard Oil Company (Kentucky)	8	II, 1087	July 1, 1916
Tide Water Oil Company	9	II, 1096	July 1, 1916
	17	II, 1161	July 1, 1918
The Standard Oil Company (Ohio)	10	II, 1103	Oct. 14, 1916
	27	II, 1283	Jan. 1, 1921
Standard Oil Company of California	16	II, 1151	July 1, 1918
Utah Oil Refining Company	18	II, 1170	Dec. 1, 1918
Standard Oil Company of New York	22	II, 1224	Apr. 30, 1919
	24	II, 1237	May 29, 1919
White Eagle Oil and Refining Company	26	II, 1269	Aug. 18, 1920

Exhibit 57 was granted by Indiana to Magnolia Petroleum Company after the execution of Exhibit 31, but was simply a modification of a prior license, Exhibit 14, to the same licensee, and related solely to the methods of paying royalties (R. III, 1600).

NOTE—The 18 licenses enumerated in Group I above were granted severally to 10 different secondary defendant appellants. Exhibits Nos. 2, 3, 6 and 9 appear to have expired before the petition was filed (R. I, 192, 162, 148, 366). Exhibits Nos. 7, 10 and 16 are stated in the record to have been superseded by Exhibits Nos. 30, 27 and 32 respectively (R. I, 148, 200; II, 1151). Any other licenses enumerated above which may appear to have expired by their terms are assumed to have continued in force for at least six years after their dates of apparent expiration, in view of other provisions contained in such licenses, especially those relating to protection against suits for infringement.

* Roman numbers refer to volumes; Arabic figures to pages.

Group II. Licenses granted by New Jersey to certain of these secondary defendant appellants before the execution of the only cross-license agreement to which New Jersey was a party (Govt. Ex. 74, dated September 28, 1923; R., Vol. III, p. 1749):

Govt. Ex. No.	*Place in Record*	*Date*	*Secondary Defendant Appellants Licensees*
36	II, 1373	Jan. 30, 1922	Beacon Oil Company
49	III, 1512	Nov. 24, 1922	Owl Oil Company
65	III, 1667	May 21, 1923	Vacuum Oil Company

Group III. Licenses granted by Gasoline Products to certain of these secondary defendant appellants before the date of the first cross-license agreement to which Gasoline Products was a party (Govt. Ex. 55, dated January 26, 1923; R., Vol. III, p. 1579):

Govt. Ex. No.	*Place in Record*	*Date*	*Secondary Defendant Appellants Licensees*
25	II, 1250 III, 1425	July 23, 1919 as modified by Ex. No. 41—April 20, 1922	Indian Refining Company
38	III, 1391	Feb. 6, 1922	The Pure Oil Company
40	III, 1405	Mar. 16, 1922	Roxana Petroleum Corporation
43	III, 1443	May 12, 1922	Sapulpa Refining Company
44	III, 1455	Aug. 14, 1922	Sun Oil Company
53	III, 1559	Dec. 19, 1922	Waite Phillips Company

Group IV. Licenses granted by Gasoline Products to certain of these secondary defendant appellants after the execution of cross-license agreement, Govt. Ex. 55, between Texas and Gasoline Products, dated January 26, 1923 (R., Vol. III, p. 1579):

Govt. Ex. No.	*Place in Record*	*Date*	*Secondary Defendant Appellants Licensees*
58	III, 1602	Mar. 2, 1923	The Hickok Producing Company
59	III, 1606	Mar. 21, 1923	Waverly Oil Works Company, Inc.

The license to The Hickok Producing Company, Govt. Ex. 58, purports to grant a license under the patents of Gasoline Products only. The license to Waverly Oil Works Company, Inc., Govt. Ex. 59, grants a license under the patents of Gasoline Products and certain immunities under those of Texas.

After the execution of the above mentioned cross-license agreement between Texas and itself (Govt. Ex. 55; R., Vol. III, p. 1579), and later of that between New Jersey and itself (Govt. Exs. 75, 76; R., Vol. III, pp. 1772-1774), Gasoline Products wrote to most of its previous licensees mentioned above letters stating in substance that it had been granted authority to extend to the licensees of Gasoline Products a sub-license under the patents of Texas and Indiana and, in most cases, New Jersey, for operations according to the Cross process. No additional royalty was charged to the licensees for this additional grant. There is nothing in any of these letters to inform the licensees as to the provisions of the primary agreements found by the Court below to have been unlawful.

Group V. Licenses granted by Indiana after the execution of Ex. 31, dated August 26, 1921 (R., Vol. II, p. 1315):

Govt. Ex. No.	*Place in Record*	*Date*	*Secondary Defendant Appellants Licensees*
32	II, 1336	Oct. 3, 1921	Standard Oil Company of California
45	III, 1471	Sept. 5, 1922	Tidal Refining Company

Govt. Exs. 32 and 45 both state that, by the agreement between Indiana and Texas, "each has the right to grant licenses under the patents of the other", and thereupon Indiana issued the license, not only under its own patents, but under those of Texas; but there is nothing in the language of Exs. 32 or 45 which discloses any of the provisions of the primary agreements found by the Court below to have been unlawful.

Group VI. License issued by Texas to a secondary defendant-appellant, joining in this brief, after the execution of Govt. Ex. 31, dated August 26, 1921 (R., Vol. II, p. 1315):

Govt. Ex. No.	*Place in Record*	*Date*	*Secondary Defendant Appellants Licensees*
46	III, 1481	Oct. 13, 1922	White Eagle Oil and Refining Co.

This license agreement recited that "by an arrangement between said Companies (Indiana and Texas), each has the right to grant licenses under the patents of the other", and thereupon Texas proceeded to grant a license under both its own patents and those of Indiana; but here also there is nothing in the agreement which discloses any of the provisions of the primary agreements found by the Court below to have been unlawful.

Appendix B.

Alleged Restrictive Provisions.

The petition alleged in substance that certain provisions of the secondary agreements were unduly restrictive of the activities of the licensees. These were:

(a) *So-called Territorial Restrictions.* These were provisions in licenses granted by Indiana limiting the area in which product produced under the license might be sold by the licensee. Such provisions are found in the following licenses to secondary defendant appellants who have joined in this brief: Govt. Exs. 2, 3, 6, 7, 8, 9, 10, 11, 14, 16, 17, 18, 22, 24, 27, 30 and 32. All of these licenses, except Ex. 32, were granted before the execution of the first cross-license agreement among the primary defendants and were licenses solely under the patents of the licensor. The restriction in Ex. 32, a license to the Standard Oil Company of California, was inserted through inadvertence (R., Vol. II, pp. 1002, 1003). No attempt was ever made to enforce these territorial restrictions (R., Vol. II, p. 1005) and licensees shipped with impunity into the designated territory in the United States not only large quantities of straight-run gasoline (R., Vol. II, p. 939), which the Government claims to be identical with cracked gasoline, but also in some instances cracked gasoline made under the licenses (R., Vol. II, pp. 1002, 1005). These restrictions were expressly waived over two years ago (R., Vol. II, pp. 736-738). They were not criticized in the opinion of the Court below.

(b) *Options to Purchase.* In three of the licenses granted to these secondary defendant appellants (Govt. Exs. 26, 45, 46; R., Vol. II, p. 1274; Vol. III, pp. 1471, 1482, 1572), Indiana, the licensor, is given an option to buy from the licensee an amount equal to one-third of

the gasoline and other products made by the licensee *by the use of the inventions licensed,* the prices to be substantially the market wholesale prices. The option was never exercised (R., Vol. II, p. 1005).

These provisions were formally waived nearly two years ago (R., Vol. II, pp. 757-762). The Court below in its opinion held that such a provision, if it applied to gasoline other than that produced with the inventions licensed, would be improper, but did not criticize these provisions in the licenses to secondary defendants.

(c) *Admission of Validity of Unissued Patents.* Certain licenses to secondary defendant appellants contained a provision for the admission of the validity of issued patents as well as of patents not yet issued, under which secondary defendants were to be licensed upon their issuance. The opinion of the Court below referred to a similar provision in the cross-license agreements as improper, but did not refer to its presence in the licenses to secondary defendants. These provisions were formally eliminated from the contracts by waivers more than two years ago (R., Vol. II, pp. 732-736).

(d) *Other Provisions.* The petition mentions other provisions in various licenses, limiting the amount of raw material to which the process should be applied, the number of mechanical units which were licensed to be employed, and the place where the invention licensed should be used (R., Vol. II, pp. 33-37). These provisions are those common generally in licenses under patents and were not mentioned or in any way criticized by the Court below in its opinion.

Appendix C.

Pertinent Assignments of Error.

The following are the pertinent assignments of error of the secondary defendant appellants who join in this brief.

I.

The following secondary defendant appellants, to-wit:

Beacon Oil Company (R. III, 2033)
The Hickok Producing Company (R. III, 2052)
Indian Refining Company (R. III, 2052)
Owl Oil Company (R. III, 2033)
Pure Oil Company (R. III, 2050)
The Roxana Petroleum Corporation (R. III, 2053)
Sapulpa Refining Company (R. III, 2051)
Solar Refining Company (R. III, 2032)
Standard Oil Company (Kentucky) (R. III, 2047)
Standard Oil Company (Kansas) (R. III, 2047)
Sun Oil Company (R. III, 2051)
Tide Water Oil Company (R. III, 2049)
Tidal Refining Company (R. III, 2049)
Utah Oil Refining Company (R. III, 2048)
Waite Phillips Company (R. III, 2053)

either filed substantially, or joined in and adopted, the following assignments of error, theretofore filed by the primary defendants (R. III, 2026), to-wit:

The Court erred:

(*1*) In refusing to dismiss the petition and supplemental petition as against each of these defendants.

(*2*) In refusing to dismiss the petition and supplemental petition as against each of these defendants upon the facts found.

(4) In decreeing that the agreements entered into by the primary defendants with the various secondary defendants pursuant to and in accordance with the said agreements between the primary defendants, and described particularly in the petitioner's petition, are null and void and in violation of the Act of Congress of July 2, 1890, and the Acts amendatory thereof, commonly known as the Sherman Anti-Trust Act.

(6) In decreeing that the primary defendants and the secondary defendants, and each and all of their respective officers, directors, agents, servants and employees, and all persons acting, or claiming to act, on their behalf, be perpetually enjoined and restrained from further executing or performing said agreements.

(8) In refusing

(a) to overrule the exceptions of the United States to the Special Master's report.

(b) to approve the Special Master's report.

II.

The following secondary defendant appellants, to wit:

Magnolia Petroleum Company (R. III, 2043)
Waverly Oil Works Company (R. III, 2054)
White Eagle Oil & Refining Co. (R. III, 2054)
Standard Oil Company of New York (R. III, 2043)
Solar Refining Company (R. III, 2032)

either filed or joined in and adopted the following assignments of error:

(1) Same as No. "1" of Division I, *supra*.

(2) Same as No. "2" of Division I, *supra*.

(*3*) The Court erred in making and entering said decree against each of these defendants because said decree was not, and is not, sustained by the evidence in the cause or by the facts proven therein.

(*4*) Substantially the same as No. "8" of Division I, *supra*.

(*7*) The Court erred in ordering, adjudging and decreeing that the agreements entered into by the primary defendants with these secondary defendants, and described by the Court as made pursuant to and in accordance with the agreements between the primary defendants (referred to in the decree as void agreements) are in all respects null and void, and in violation of the Act of Congress of July 2, 1890, and the Acts amendatory thereof, commonly known as the Sherman Anti-Trust Act.

(*9*) The Court erred in ordering, adjudging and decreeing that the primary defendants and the secondary defendants, and each and all of their respective officers, directors, agents, servants and employees, and all persons acting, or claiming to act, on behalf of them, or any of them, be perpetually enjoined and restrained from further executing or performing each of said agreements between these defendants and any primary defendant in any respect.

(*10*) The Court erred in failing to order, adjudge and decree that these secondary defendants might elect to affirm the agreements described in the decree as having been entered into by them with various primary defendants.

(*11*) The Court erred in depriving said secondary defendants, by its decree, of their rights under their respective agreements, entered into by them with one of the primary defendants, to require such primary defendant to defend, and bear the expense of defending, suits for alleged

infringements of patents by the practice of processes carried on by said secondary defendants under their said agreements.

(*12*) The Court erred in depriving said secondary defendants, by its decree, of their rights under the patents of primary defendants which they had acquired and for which they had made payment prior to the decree, under the agreements described in the decree as entered into between said secondary defendants and primary defendants.

(*13*) The Court erred in depriving said secondary defendants by said decree, of the right, theretofore paid for by said secondary defendants, to improvements discovered and patented by the primary defendants in processes licensed to be used by said secondary defendants in said agreements described in the decree as having been entered into by said secondary defendants and primary defendants.

(*14*) The Court erred in not designating specifically which were and are the agreements between any primary defendant and any secondary defendant which the Court decreed to be null and void and in violation of the act aforesaid.

III.

Solar Refining Company (R. III, 2032), a secondary defendant appellant, also filed the following assignments of error:

(*2*) The Court erred in decreeing that the agreements made by this defendant, as particularly described in the petitioner's petition and supplemental petition, are null and void and in violation of the Act of Congress of July

2, 1890, and the Acts amendatory thereof, commonly known as the Sherman Anti-Trust Act.

(*3*) The Court erred in entering said decree in that it disregarded the facts found by the Special Master.

(*5*) The Court erred in decreeing that the agreements made by Solar Refining Company with certain of the so-called primary defendants were made pursuant to and in accordance with certain agreements between said primary defendants, and that said agreements made by Solar Refining Company were in all respects null and void and in violation of the Act of Congress of July 2, 1890, and the Acts amendatory thereof, commonly known as the Sherman Anti-Trust Act.

IV.

Standard Oil Company (Ohio) (R. III., 2028), a secondary defendant appellant, filed the following assignments of error:

(*1*) Substantially the same as No. "1" of Division I, *supra.*

(*2*) Substantially the same as No. "2" of Division I, *supra.*

(*3*) Same as No. "8" of Division I, *supra.*

(*4*) The Court, in decreeing that the agreements entered into by and between the primary defendants, described particularly in the petitioner's petition were in all respects null and void, erred in thereby depriving this defendant of rights of immunity under the patents of the primary defendants theretofore obtained by it and derived from said agreements between the primary defendants.

(5) Same as No. "14" of Division II, *supra.*

(7) The Court, in decreeing that the primary defendants and each and all of their respective officers, servants, agents and employees be enjoined and restrained from carrying out said agreements between them in any respect, erred insofar as the primary defendants are thereby enjoined from respecting the rights of immunity under the patents of one or more of the primary defendants theretofore obtained by this defendant and derived from said agreements between the primary defendants.

(8) The Court erred in decreeing that the agreement entered into by primary defendant, Standard Oil Company (Indiana), with this defendant, described in petitioner's petition as Agreement No. 27, was made pursuant to and in accordance with the said agreements between the primary defendants and that said agreement between this defendant and said primary defendant, was in all respects null and void and in violation of the Act of Congress of July 2, 1890, and the Acts amendatory thereof, commonly known as the Sherman Anti-Trust Act.

(9) The Court erred in decreeing that the primary defendant, Standard Oil Company (Indiana), and each and all of its respective officers, directors, servants, agents and employees be enjoined and restrained from carrying out said agreement with this defendant in any respect.

(10) The Court erred in decreeing that this defendant, and each and all of its officers, directors, servants and employees, and all persons acting, or claiming to act, on their behalf, be perpetually enjoined and restrained from further executing or performing said agreement with said primary defendant, Standard Oil Company (Indiana), in any respect.

(*11*) Substantially the same as No. "11" of Division II, *supra*.

V.

Vacuum Oil Company (R. III, 2041), a secondary defendant appellant, filed the following assignments of error, to-wit:

The Court erred:

(*1*) In refusing to dismiss the petition as against this defendant.

(*2*) In refusing to dismiss the petition as against this defendant upon the facts found by the Court.

(*3*) In refusing

(a) to overrule the exceptions of the United States to the Special Master's report so far as the same related to this defendant.

(b) to approve the Special Master's report as to this defendant.

(*4*) In holding that the agreement between this defendant and Standard Development Company, described particularly in the petition, was pursuant to or dependent upon any agreement or agreements between the defendants designated in the petition as "Primary Defendants", and in decreeing that the first said agreement was in all respects null and void.

(*5*) In decreeing that Standard Development Company and Standard Oil Company (New Jersey), and each and all of their respective officers, directors, servants, agents and employees, and all persons acting, or claiming to act,

in their behalf, be enjoined and restrained from carrying out said agreement in any respect.

(*6*) In decreeing that this defendant, and each and all of its officers, directors, servants and employees, and all persons acting, or claiming to act, in its behalf, be perpetually enjoined and restrained from further executing or performing said agreement in any respect.

(*7*) Substantially the same as No. "10" of Division II, *supra*.

(*8*) Substantially the same as No. "11" of Division II, *supra*.

(*9*) In depriving this defendant, by the decree, of the rights of immunity under the patents of Standard Development Company which this defendant had acquired and for which it had made payment in full prior to the decree, under its aforesaid agreement with Standard Development Company.

(*10*) Substantially the same as No. "13" of Division II, *supra*.

(*11*) In holding that the said agreement between this defendant and Standard Development Company was in violation of the Act of Congress of July 2, 1890, and the Acts amendatory thereof, known as the Sherman Anti-Trust Act.

VI.

Standard Oil Company of California (R. III, 2031), a secondary defendant appellant, filed the following assignments of error:

The District Court erred:

(*1*) In decreeing that the agreements entered into by Standard Oil Company (Indiana), licensor, and this defendant, licensee, dated October 3, 1921, is null and void and in violation of the Act of Congress of July 2, 1890, and the Acts amendatory thereof, commonly known as the Sherman Anti-Trust Act.

(*3*) In decreeing that the primary defendants and the secondary defendants, and each and all of their respective officers, agents, servants and employees, and all persons claiming to act on their behalf, or any of them, be perpetually enjoined and restrained from further executing or performing said agreement of October 3, 1921.

(*4*) In holding said agreement of October 3, 1921, wholly void, rather than merely adjudicating upon the validity of the specific portions thereof set forth in paragraph two of the prayer of the petition of the United States filed herein.

BRIEF FOR THE APPELLANT

FILE COPY

FILED
DEC 20 193
CHARLES ELMORE CR
CL

IN THE

Supreme Court of the United States

OCTOBER TERM, 1930. No. 378.

STANDARD OIL COMPANY (INDIANA), STANDARD OIL COMPANY (NEW JERSEY), TEXAS COMPANY, GASOLINE PRODUCTS COMPANY, *et al.*,
Appellants,

vs.

UNITED STATES OF AMERICA,
Appellee.

BRIEF FOR HUMBLE OIL & REFINING COMPANY AND STANDARD OIL COMPANY OF LOUISIANA, TWO OF THE SECONDARY DEFENDANT APPELLANTS.

FRANK L. CRAWFORD,
Of Counsel for Standard Oil Company of Louisiana and Humble Oil & Refining Company.

EDGAR E. TOWNES,
Of Counsel for Humble Oil & Refining Company.

Pandick Press, Inc., 22 Thames St., New York, U. S. A.

SUBJECT INDEX.

	PAGE
PRELIMINARY STATEMENT	1
OUTLINE OF FACTS	2
SPECIFICATIONS OF ERROR	6
SUMMARY OF ARGUMENT	6
ARGUMENT	7
POINT I.—Voiding the licenses of these secondary defendant appellants deprives them of important protection and rights	7
1. Right to call on the licensor for defense of patent litigation	7
2. Immunity for future operation under the licensors' patents	8
POINT II.—These secondary defendant appellants should not be deprived of the rights granted them under the licenses set forth in the Outline of Facts, pages 3 to 5, which licenses relate only to patents of the respective licensors of these appellants, and if the decree was intended to apply to such licenses, it is erroneous	9
POINT III.—Contracts which are not in themselves unlawful entered into by an innocent third person with a party to an illegal combination have been held by the Court to be collateral and enforceable against the innocent third person. *A fortiori* they should remain enforceable by the latter	12

PAGE

POINT IV.—If this Court deems improper any of the provisions of the licenses to these secondary defendant appellants claimed by the Government to be unduly restrictive, the Court should, we submit, confine its decree in that respect specifically to enjoining primary defendants from enforcing such provisions without striking down the whole of such licenses 15

POINT V.—The decree should be reversed in so far as it declares the agreements entered into by any primary defendant with these secondary defendant appellants respectively to be null and void and enjoins the defendants from further performing the same 16

Index of Authorities Cited.

Cases.

	PAGE
Carter-Crume Co. *v.* Peurrung, 86 Fed. 439	14
Connolly *v.* Union Sewer Pipe Co., 184 U. S. 540	12, 13
Higgins *v.* California Prune & Apricot Growers, Inc., 16 F. (2d) 190	13
Milliken-Tomlinson Co. *v.* American Sugar Refining Co., 9 F. (2d) 809	13
Small Co. *v.* Lamborn & Co., 267 U. S. 248, 252	12, 13
Virtue *v.* Creamery Package Manufacturing Co., 227 U. S. 8, 33	8, 10, 11
Wilder Manufacturing Co. *v.* Corn Products Refining Co., 236 U. S. 165, 172	12, 13
Wisewall, The Charles E., 74 Fed. 802	13

Statutes.

Act of February 11, 1903 (15 U. S. C. A., Sec. 29)	1
Act of February 13, 1925 (28 U. S. C. A., Sec. 345)	1
Sherman Act (15 U. S. C. A., Sec. 1)	2

IN THE

Supreme Court of the United States

OCTOBER TERM, 1930.

No. 378.

STANDARD OIL COMPANY (INDIANA), STANDARD OIL COMPANY (NEW JERSEY), TEXAS COMPANY, GASOLINE PRODUCTS COMPANY, *et al.*,
Appellants,

vs.

UNITED STATES OF AMERICA,
Appellee.

BRIEF FOR HUMBLE OIL & REFINING COMPANY AND STANDARD OIL COMPANY OF LOUISIANA, TWO OF THE SECONDARY DEFENDANT APPELLANTS.

The opinion of the District Court in this suit is reported in 33 F. (2d) 617, and is also printed in the Record (R. III, 1988).

A statement as to Jurisdiction to Review on Appeal the Decree below was heretofore filed with this Court in accordance with Rule 12, and it was announced on October 20th, 1930, that "probable jurisdiction is noted".

This is an appeal under the provisions of the Act of February 13th, 1925 (28 U. S. C. A., §345), and of section 2 of the Act of February 11th, 1903 (15 U. S. C. A., §29),

from a decree entered in the United States District Court for the Northern District of Illinois, Eastern Division, in the Seventh Circuit, in a suit in equity for alleged violation of the Act of July 2nd, 1890, commonly known as the "Sherman Anti-Trust Act" (15 U. S. C. A., §1).

The suit having been begun by the filing of the petition on or about the 25th day of June, 1924 (R. I, 1), upon a certificate of "general public importance" filed by the Attorney General (R. I, 400), the cause was assigned for hearing before Circuit Judges Evans, Page and Anderson. The subsequent proceedings in the suit, down to the perfecting of the appeal, are fully stated at pages 2 to 4 of the "Joint Brief for Twenty-two Secondary Defendant Appellants" filed on this argument, and these appellants, for brevity, accept the statements in that behalf in such brief and adopt the same as their own.*

Outline of the Facts.

These appellants adopt and repeat the statement of facts set forth in the said "Joint Brief", except in so far as the same is modified by the following additional facts peculiar to them, which, we submit, do not alter the principal legal conclusions urged in said "Joint Brief":

The primary defendants, to-wit: Standard Oil Company (Indiana), Standard Oil Company (New Jersey), Standard Development Company, The Texas Company and Gasoline Products Company, will, for convenience in this brief as in the said "Joint Brief", be referred to respectively as "Indiana", "New Jersey" (including Standard Development Company), "Texas" and "Gasoline Products".

---

* All references herein are to the pages of the transcript of record as printed by the Clerk of this Court. Roman numbers refer to volumes; Arabic figures to pages.

These appellants, Humble Oil & Refining Company (hereinafter referred to as "Humble") and Standard Oil Company of Louisiana (hereinafter referred to as "Louisiana") are two of the companies classified in the petition as "secondary defendants" (R. I, 9). They are refiners of petroleum and producers of gasoline. Except by the sweeping language of the petition (R. I, 10), no charge has been made by the Government, and no attempt whatever has been made to prove, that either of these appellants participated in the alleged conspiracy and combination of the primary defendants, claimed to have been constituted by their cross-licensing agreements.

Humble and Louisiana were granted non-exclusive licenses by Standard Oil Company (Indiana) prior to the execution of the first cross-licensing agreement (Gov. Ex. 31, dated Aug. 26th, 1921; R. II, 1315), to-wit: license Indiana to Louisiana, Gov't. Ex. 13 (R. II, 1131), dated March 15th, 1917, modified as to the payment of royalties by Gov't. Ex. 39 (R. III, 1402), dated February 9, 1922; and license Indiana to Humble, Gov't. Ex. 20 (R. II, 1188), dated April 14th, 1919.

These licenses in each case granted "the right to employ the invention" of Indiana's United States patents then owned and under United States patents thereafter "owned or controlled by the licensor" and covering "improvements upon or additions to the subject matter" of the patents first named. This language was equivalent to a broad grant of rights to use the "Burton Process", as Indiana's special process was then, and is still, called, and also of rights to use in other connections any of the inventions covered by United States patents owned or controlled by Indiana.

These licenses were otherwise substantially in the same form as the similar licenses granted by Indiana prior to the execution of Exhibit 31, which are enumerated in Appendix A, Group I, page 48, of the said "Joint Brief". They contain certain provisions which the petition alleged in substance to be unduly restrictive. These provisions are described in detail in Appendix B, pages 52-53, subdivisions (a), (c) and (d), of said "Joint Brief". Such of these provisions as were in any way criticized by the Court in its opinion were eliminated from the licenses after the argument and before the decision in the Court below (R., II, 732-738). The royalties paid under these licenses by Louisiana and Humble (R. II, 785-788) were large and show that the installations made for the purpose of operating under such licenses must have been extensive.

In addition to said licenses (Exhibits 13, 39 and 20), Texas and Indiana, by Gov't. Ex. 74 (R. III, 1749), which is one of the so-called Primary Agreements, purported to license Louisiana and Humble under the patent rights of Texas and Indiana, specifying that "no license is hereby granted for the Holmes-Manley and/or Burton Processes" (R. III, 1752). The "Holmes-Manley Process" was and is the peculiar process of the Texas Company. The context of Exhibit 74 indicates that by the foregoing provisions Texas and Indiana intended only to grant to Humble and Louisiana immunity from attack in the operation by them of the "Tube-and-Tank Process", which was New Jersey's special process. Texas and Indiana further agreed that they would on request license Louisiana and Humble for the Holmes-Manley process at an agreed royalty. But these provisions would seem to have been superfluous, since both Louisiana and Humble had already received licenses from Indiana to operate under Indiana's patents, including

the "Burton Process" (Gov't. Exs. 13, 39 and 20, R. II, 1131, 1402, 1188), which licenses are discussed above; and through Gov't. Ex. 31 between Indiana and Texas (R. II, 1317), Louisiana and Humble had indirectly received immunity for all purposes under the Texas patents. Ex. 74 also extended (R. III, 1752) the license contract running from Indiana to Louisiana, for the practice of the "Burton Process" until December 1st, 1931, and thereafter to be royalty free. The effect of all these provisions, therefore, was simply to confirm rights which Louisiana and Humble already enjoyed and, in the case of Louisiana, to extend these rights until 1931.

The explanation of these provisions presumably is that Louisiana and Humble were subsidiaries of New Jersey (R. II, 933), which may well have wished to make certain that those companies were amply protected against any attacks from Texas or Indiana, as by other provisions of the agreement (R. III, 1751, h), Texas and Indiana were fully protected against any attacks from Louisiana and Humble.

There is no substantial difference between the situation of Louisiana and Humble and that of the twenty-two secondary defendants who have united in the said "Joint Brief", except that Louisiana and Humble were, as we have stated, subsidiaries of New Jersey and were mentioned in Gov't. Ex. 74. But this difference in their situation does not, it seems to these appellants, create any material distinction in the legal principles governing their case, for which reason the principal arguments set forth in the said "Joint Brief" are equally applicable to them.

Specifications of Error.

These appellants duly filed assignments of error (R. III, 2036, 2039), in which they assigned as error the following:

(*1*) The failure of the Court below to dismiss the petition as against these appellants upon the record and the facts found.

(*2*) The failure of the Court below

(a) To overrule the exceptions to the Special Master's report. (b) To approve the Special Master's report.

(*3*) The decreeing by the Court below that the agreements entered into by the primary defendants with the various secondary defendants, pursuant to and in accordance with the agreements between the primary defendants, and described particularly in the petitioner's petition herein, are null and void and in violation of the Sherman Anti-Trust Law.

(*4*) The decreeing by the Court below that the primary defendants and the secondary defendants be perpetually enjoined and restrained from further executing or performing said agreements between the primary defendants and the various secondary defendants.

Summary of Argument.

1. Voiding the licenses of these secondary defendant appellants deprives them of important protection and rights.

2. These secondary defendant appellants should not be deprived of the rights granted them under the licenses set

forth in the outline of facts, pages 3 to 5, which licenses relate only to patents of the respective licensors of these appellants, and if the decree was intended to apply to such licenses, it is erroneous.

3. Contracts which are not in themselves unlawful entered into by an innocent third person with a party to an illegal combination have been held by this Court to be collateral and enforceable against the innocent third person. *A fortiori* they should remain enforceable by the latter.

4. If this Court deems improper any of the provisions of the licenses to these appellants, claimed by the Government to be unlawfully restrictive, the Court should, we submit, confine its decree in that respect specifically to enjoining the primary defendants from enforcing such provisions, without striking down the whole of such licenses.

5. The decree should be reversed in so far as it declares the agreements entered into by any primary defendant with these secondary defendant appellants to be null and void and enjoins the defendants from further performing the same.

ARGUMENT.

POINT I.

Voiding the licenses of these secondary defendant appellants deprives them of important protection and rights.

1. Right to call on the licensor for defense of patent litigation.

The license agreements, Gov't. Ex. 13 (R. II, 1131) modified by Gov't. Ex. 39 (R. III, 1402) from Indiana to Louisiana, and Gov't. Ex. 20 (R. II, 1188) from Indiana to

Humble (*supra*, p. 3), provided in each case that the licensor should defend any patent litigation brought against the patent licensee for operations conducted under its license. This is part of the consideration for which royalties have been paid. The primary defendant licensor has received, through those royalties, payment in full for this obligation to defend patent litigation growing out of past operations. The decree releases the primary defendant licensor from that obligation and indeed enjoins the primary defendant from carrying out that obligation if it so desired. Such provision for defense of infringement suits is a customary and legal provision in a license agreement. "It is but an assurance of title to the rights conveyed." *Virtue* v. *Creamery Package Manufacturing Company*, 227 U. S. 8, 33 (1913). That the burden of defending such patent litigation in the involved field of gasoline cracking patents is not illusory, is seen from the fact that such a litigation is already in progress between one of the parties to this suit and a plaintiff not a party here (R. II, 862).

2. Immunity for future operation under the licensors' patents.

Under their license agreements, these appellants now have the right to conduct their cracking operations in the future under the patents of their licensors. These appellants also have the right to use improvements made by their licensors in the operations covered by the patents of the latter. If this decree be affirmed in its present form and the licenses to these appellants are thereby annulled, these appellants will be immediately exposed to claims that they are infringers of the licensors' patents if they continue operations; nor will there be any obligation upon

the part of their licensors to license these appellants for future operations. Further, these appellants are put in an obviously disadvantageous position for bargaining for such new licenses by reason of the fact that they have naturally procured costly equipment for operating under the patents of their licensors, and, being committed to that method of operation, must either scrap their plants or accept such terms as the owner of the patents may be willing to make. Moreover, this suit, through the failure of the Government's attack upon the patents of the primary defendants, leaves the latter in a strengthened position in any such negotiation.

POINT II.

These secondary defendant appellants should not be deprived of the rights granted them under the licenses set forth in the outline of facts, pages 3 to 5, which licenses relate only to patents of the respective licensors of these appellants, and if the decree was intended to apply to such licenses, it is erroneous.

This point applies especially to the licenses discussed on page 3, *supra,* to-wit: Exhibits 13 and 20 granted by Indiana to these appellants respectively, before the execution of Government Exhibit 31, the first cross-license agreement, and Exhibit 39 modifying Exhibit 13 as to payment of royalties.

The Court below found the alleged vice in the situation presented by the evidence to be in the provisions of the cross-license agreements between the primary defendants. The alleged impropriety of the terms of these agreements between the primary defendants certainly cannot affect a license which a secondary defendant, as here, obtained from

a primary defendant prior to the execution of any cross-license agreement by such licensor and which conferred immunities solely under the patents of the licensor. Nor can it affect agreements made after such execution which were merely supplemental to such prior licenses.

In *Virtue* v. *Creamery Package Manufacturing Company*, 227 U. S. 8 (1913), where there was an agreement admittedly in violation of the Sherman Law between various corporations, the plaintiff attempted to impute that illegality to another contract, legal in itself, which one of the members of the combination had previously made with a third party. It was held that no such illegality could be imputed either to such earlier contract or to supplemental modifications of it made after the making of the illegal combination.

In the instant case, the decree did not specify the particular licenses to secondary defendants which were intended to be declared null and void. None of the licenses dealt with in this Point II clearly appear to be within the language of the decree when read in connection with the evidence. On the other hand, the decree, when read in connection with the petition and the opinion, is ambiguous enough to make these secondary defendant appellants feel that the point should be presented to this Court.

The decree provides (R., Vol. III, pp. 2020-2021):

> ". . . that the agreements entered into by the primary defendants with the various secondary defendants, pursuant to and in accordance with said void agreements of the primary defendants, and described particularly in the petitioner's petition, are hereby declared to be null and void" . . .

By this language, agreements with secondary defendants entered into "pursuant to and in accordance with"

the cross-licensing agreements among the primary defendants are declared to be void, but reference is made to the petition to determine which of the licenses to the secondary defendants fall within this category. The petition, however, does not charge that any particular licenses to secondary defendants have been entered into "pursuant to and in accordance with" the cross-licensing agreements between the primary defendants.

Resorting to the opinion for light, the Court, describing the agreements with the secondary defendants, says (R. III, 1989):

> "The primary defendants executed certain so-called cross-license agreements. The secondary defendants *thereafter* took sub-licenses from one or the other of the primary defendants." (Italics ours.)

This use of the word *thereafter* seems to indicate that the Court was under the misconception that all of the licenses to secondary defendants were entered into *after* the execution of *all* the cross-licensing agreements among the primary defendants. From the evidence, however, it appears that in fact two of the license agreements to these appellants "described particularly in the petitioner's petition" were, as already stated, entered into *prior* to the execution of the *first* cross-licensing agreement between any of the primary defendants, namely, that between Indiana and Texas, made on August 26, 1921.

But also grants purported to be made to these appellants by Government Exhibit 74, which grants relate only to the patents of the respective licensors, and which were substantially only confirmatory of the rights previously granted, should not be disturbed. *Virtue* v. *Creamery Package Manufacturing Company*, 227 U. S. 8, 33.

Therefore, even under the view of the law taken by the Court below, the decree is erroneous—(1) because it voids certain licenses to these appellants granted long before the date of the first cross-license agreement and which, therefore, could not possibly have been granted pursuant to any primary agreement, if the decree be interpreted as applying to such licenses; and (2) because the decree voids other licenses to these appellants which were substantially only confirmatory of the earlier licenses, and so were not, in any real sense, made "pursuant to the agreements" between the primary defendants.

POINT III.

Contracts which are not in themselves unlawful entered into by an innocent third person with a party to an illegal combination have been held by this Court to be collateral and enforceable against the innocent third person. *A fortiori* they should remain enforceable by the latter.

This Court has held that where a third party enters into an agreement not in itself invalid with a member of an alleged illegal combination under the Sherman Law, the third party cannot take advantage of the illegality of the combination as a defense to his contract.

Small Company v. *Lamborn & Company*, 267 U. S. 248, 252 (1925);

Wilder Manufacturing Co. v. *Corn Products Refining Company*, 236 U. S. 165, 172 (1915);

Connolly v. *Union Sewer Pipe Co.*, 184 U. S. 540 (1902).

In each of these cases the right of a member of an illegal combination in restraint of trade to enforce a contract against a third party was upheld.

In *Small Company* v. *Lamborn & Company, supra,* this Court said, at page 252:

> "* * * it was not shown that the contracts were in themselves invalid under the Anti-Trust Act, but only that they were collateral to a combination prohibited by it. * * * As has been pointed out in prior cases, there is nothing in the Anti-Trust Act which invalidates such a collateral contract or relieves the buyer from his obligation under it. * * * It is only where the invalidity is inherent in the contract that the Act may be interposed as a defense."

In *Wilder Manufacturing Co.* v. *Corn Product Refining Company, supra,* Chief Justice White said, at page 172:

> "* * * courts may not refuse to enforce an otherwise legal contract because of some indirect benefit to a wrongdoer which would be afforded from doing so or some remote aid to the accomplishment of a wrong which might possibly result * * *."

See also *Milliken Tomlinson Co.* v. *American Sugar Refining Co.*, 9 F. (2d) 809, 816 (C. C. A. 1st Cir., 1925); *Higgins* v. *California Prune & Apricot Growers, Inc.*, 16 F. (2d) 190, 194 (C. C. A. 2d Cir., 1926), writ of certiorari dismissed 273 U. S. 781 (1927).

These cases related to sales either executed or executory, but the application of the principle is not confined to such a state of facts.

In *The Charles E. Wisewall,* 74 Fed. 802 (D. C. N. D. N. Y. 1896), aff'd. 86 Fed. 671 (C. C. A. 2nd Cir., 1898), and cited with approval in *Connolly* v. *Union Sewer Pipe*

Co, supra, at page 551, the contract was one for services of a tug for towage purposes. It was held in that case that one to whom the services were rendered could not avoid payment on the ground that the tug owners were members of an association illegal under the Sherman Law.

In the case of these appellants, the first licensor, Indiana, held itself out as having the right to grant certain immunities under certain patents which it was prepared to grant for the life of those patents on the payment of a royalty spread over a number of years. These appellants, the third parties, having nothing to do with the alleged illegal combination, paid or agreed to pay such royalty for the immunity so offered. If in such cases as are cited above an innocent third party could not avail himself of the defense of illegal conduct of the party to the combination to relieve himself of liability to such party, it would seem, *a fortiori,* that such innocent third party should not be deprived of the right to *enforce* the obligations which the party to the alleged illegal combination had assumed.

As we should expect, therefore, such a contract has been held to be enforceable in favor of the innocent third party where the question has arisen. *Carter-Crume Co.* v. *Peurrung,* 86 Fed. 439 (C. C. A. 6th Cir., 1898), opinion by Lurton, J., afterwards Mr. Justice Lurton. In that case suit was brought to recover an overdue payment under a written contract for the payment of money entered into between the plaintiff's assignor, a firm then engaged in the business of jobbing wooden ware, and the defendant, a corporation manufacturing wooden ware. There was some evidence to the effect that the contract was made and intended by Carter-Crume Co., the defendant, as one step in a general illegal scheme for monopolizing the trade in

wooden ware and controlling prices. The Court, holding for the plaintiff, said, at page 442:

> "But, if each independent producer contract to sell his product, or to sell or lease his plant, without concert with others, or knowledge of or purpose to participate in the plans of the buyer, he cannot be said to have conspired against freedom of commerce, or to have made a contract in illegal restraint of trade. The transaction with Peurrung Bros. & Co. was, on its face, legitimate, and it cannot be impeached simply by evidence that the Carter-Crume Company understood and intended it as one step in a general illegal scheme for monopolizing the trade in wooden butter dishes, and controlling prices."

POINT IV.

If this Court deems improper any of the provisions of the licenses to these appellants, claimed by the Government to be unlawfully restrictive, the Court should, we submit, confine its decree in that respect specifically to enjoining the primary defendants from enforcing such provisions without striking down the whole of such licenses.

These appellants, in support of the foregoing point, for brevity, adopt and repeat the argument set forth in said "Joint Brief" at pages 43 to 45, inclusive.

157

POINT V.

The decree should be reversed in so far as it declares the agreements entered into by any primary defendant with these secondary defendant appellants respectively to be null and void and enjoins the defendants from further performing the same.

Respectfully submitted,

FRANK L. CRAWFORD,
Of Counsel for Standard Oil Company of Louisiana and Humble Oil & Refining Company.

EDGAR E. TOWNES,
Of Counsel for Humble Oil & Refining Company.

FILE COPY

FILED
DEC 22 1930
CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

October Term, A. D. 1930

No. 378

STANDARD OIL COMPANY (INDIANA), *et al.*,
including SOLAR REFINING COMPANY,
Appellants,

vs.

THE UNITED STATES OF AMERICA,
Appellee.

SEPARATE BRIEF OF APPELLANT, SOLAR REFINING COMPANY.

ALBERT L. HOPKINS,
MERRITT STARR,
H. O. BENTLEY,
DONALD J. DE WOLFE,
Counsel for Solar Refining Co., Appellant.

HAWKINS & LOOMIS CO., LAW PRINTERS, CHICAGO

159

INDEX.

PAGE

I. The decree, if applicable to this defendant, pertains to portions of contract which had been abrogated..... 1

The contracts of this defendant were made prior to any cross-licensing agreements between primary defendants 2

The petition charged acceptance of licenses which had been pooled 3

Restrictive covenants assailed in petition..... 3

These covenants eliminated by consent prior to decree 4

II. Injunction against defendant operating under its license agreement will tend to drive it out of business 5

Impractical for refiner to operate without employing cracking 6

No one group of patents adequate to protect or to keep pace with demands for efficiency and economy 7

Patents of primary defendants found so related and adjacent as to provoke infringement litigation..... 8

Secondary defendant must operate under license..... 8

Cross-licensing agreements essential to the efficient development of the industry 9

Authorities Cited.

United States v. American Tobacco Co., 221 U. S. 106, 179 5

United States v. United Shoe Machinery Co., 247 U. S. 32, 53 9

IN THE

SUPREME COURT OF THE UNITED STATES

October Term, A. D. 1930

STANDARD OIL COMPANY (INDIANA), *et al.*, including SOLAR REFINING COMPANY,

Appellants,

vs.

THE UNITED STATES OF AMERICA,

Appellee.

SEPARATE BRIEF OF APPELLANT, SOLAR REFINING COMPANY.

There has been filed in this case a brief on behalf of certain defendants known as "Secondary Defendants," and in that brief the Solar Refining Company has joined. There are two matters, however, that Solar Refining Company deems that it should specifically call to the Court's attention.

I.

The decree, if applicable to this defendant, pertains to a portion of its contract which has been abrogated.

Solar Refining Company is uncertain whether the decree has nullified its contract and whether it is enjoined at all, and if so, from what. The language of the decree and of the opinion does not seem to refer to anything improper which may have been done by the Solar Refining Company. On the other hand, this defendant was not dismissed and is included in the dragnet of the decree.

That part of the Court's decree which affects the secondary defendants is as follows (R. Vol. III, pp. 2020, 2021):

> "* * * that the agreements entered into by the primary defendants with the various secondary defendants pursuant to and in accordance with said void agreements of the primary defendants and described particularly in petitioner's petition are hereby declared to be null and void."

All of the contracts set out in the petition to which Solar Refining Company was a party were *prior* to the making of any of the cross-licensing agreements between the primary defendants, and therefore, could not have been made "pursuant to and in accordance with said void agreements."

Solar Refining Company is a comparatively small refiner, located at Lima, Ohio, and is and has been engaged in a highly competitive field. In January, 1913, a patent was issued to the Standard Oil Company (Indiana), covering a process by which gas oil, theretofore almost a waste product of refining, could be cracked to make gasoline on a profitable commercial basis. It was apparent that this discovery, covered by the January, 1913 patent, was a most valuable development in the refining art. Solar Refining Company secured a license in June, 1914, which is Agreement No. 3 in the petition. This license was for two years. A new license agreement dated June 2, 1916, (No. 7 in the petition) replaced the prior agreement. On July 1, 1921, another license agreement was made by Solar Refining Company and the Standard Oil Company (Indiana), No. 30 in the petition, which is still in force. This Agreement No. 30 superceded No. 7, the agreement of 1916. It should be noted that this Agreement No. 30 was prior in date to the first cross-licensing agreement which was between Standard Oil Company (Indiana) and the Texas Company, which is the first of the series of cross-license agreements condemned by the Court.

The petition charged with reference to this and other license agreements:

> "Numerous other manufacturers of gasoline * * *, finding it necessary to employ the cracking process in order to compete with their rivals, and fearing to incur the hostility of the primary defendants so banded together, have accepted from such primary defendants licenses under the patents and asserted rights which have been pooled as aforesaid, in and by which they have agreed to pay to such primary defendants high royalties * * * and have submitted to the numerous onerous and oppressive covenants and conditions hereinabove mentioned."

We again call attention to the fact that the contract of the Solar Refining Company was prior to the time that the "primary defendants so banded together" and the alleged pooling of rights. The Petition, in Part VII, includes Contract No. 30 of the Solar Refining Company under the heading, "Class A Restrictions," which read as follows:

> "If the Licensee, or others with the consent, approval, or knowledge of the licensee, shall sell Gasoline * * * manufactured under this license in any of the States of Indiana, Illinois, Iowa, Kansas, Minnesota, Michigan, Wisconsin, Missouri, North Dakota, South Dakota, Nebraska, Montana, Wyoming, Colorado, or Oklahoma, or in the Dominion of Canada, or the Colony of Newfoundland, the Licensor shall have the right to cancel this license and all rights of the Licensee hereunder upon thirty (30) days' written notice to the licensee of such cancellation." (Petition 32.) "This form of restriction appears in agreements * * * No. 30." (*Id.* 33.)

And in the following extract from Part VII of the Petition, under the heading, "Class D Restrictions," the same were alleged to be applicable to Agreement No. 30:

> "The Licensee agrees that Gasoline * * * manufactured under this license shall not be sold in or shipped to any foreign country by the Licensee, or by others with the consent, approval, or knowledge of the Licensee, without first obtaining the express written consent so to do of

> the owners of the foreign Letters Patent corresponding to United States Letters Patent under which the Licensee is or may be licensed." (Petition 52.)

If there are any other averments mentioning this defendant or Agreement No. 30, which was made with it and it only, they have escaped our notice.

But the evidence shows that *these two restrictive covenants had been eliminated* from the contract by mutual consent. (See letter of Martyn for the Licensor to the District Court, R. 735, and Modification of License, R. 754).

No officer or member of Solar Refining Company was called or appeared or testified as a witness; no witness testified against it; and the only references to it in the bulky record are to the fact that it had made this agreement and paid royalties under it, and to the fact that these, the only seemingly objectionable provisions in its agreement, had been cancelled.

During oral argument, the Court suggested to the parties the elimination by agreement of certain portions of Agreement 31. Defendants acceded thereto and filed written waivers of those parts of the agreement.

Thereupon the Court states in its opinion (page 26):

> *"Were this the only provision objected to, we should view the litigation as happily ended,"*

which means that the ground for complaint was removed and the suit should be terminated. But the Court found other objectionable provisions in Agreements 31, 55 and 74, *none of which provisions are in Agreement 30*, and therefore proceeded to final decree.

But what was there attempted as to Agreement 31, was completely *accomplished as to Agreement 30 a year and a half before that.* The written waiver of the only provision in Agreement 30 that was objected to was executed in 1928, and this waiver was put in evidence before the Court.

The opinion of the Court contains no reference to Agreement 30. The Court's opinion quotes extensively from subsequent agreements between other parties in Nos. 31, 55 and 74, and their provisions which are quoted, analyzed and condemned, are not contained in Agreement 30. The Court, absorbed in pursuing these later and more elaborate agreements, overlooked the fact that the early Agreement 30 did not contain the provisions which in the Court's opinion were made decisive of the case.

As to the Solar Refining Company, the Court inadvertently erred in including it within the terms of its sweeping injunction. By the eliminaton of the clause objected to in Agreement 31, there was no basis left for the attack upon the Solar Refining Company.

It therefore follows that nothing objectionable was left in the Solar Refining Company's one agreement which was attacked by the Government in its petition, and that no part of that agreement was actually condemned by the Court either in its opinion or in its decree.

II.

The striking down of this defendant's license agreement and an injunction against operation thereunder might well drive the licensee out of business and to that extent reduce competition.

The object of the Sherman Anti-Trust Act was to promote competition and freedom of trade by making unlawful undue restraints and restrictions on such competition and freedom of trade. *United States* v. *American Tobacco Co.*, 221 U. S. 106, 179. The avowed object of the bill filed by the Government herein was to make possible better competitive conditions. The decree as entered, if construed to make

null and void all licensing agreements of the secondary defendants, rather than promoting, will reduce competition.

It is not practical under modern conditions for a refiner to remain in business without using one or more cracking processes to supplement straight-run refining processes. In 1925, about twenty-six per cent of the gasoline output of the country was produced by cracking. (Master's Report, R. Vol. I, p. 607.) It is obvious that no refiner whose gasoline yield from a given quantity of crude oil was cut down twenty-six per cent could compete with rivals who were able to secure the greater gasoline yield. No refining company, unless it were making a profit from production of crude oil, retailing of gasoline, or from other source, could long continue in business.

The District Court said, in its opinion (R. Vol. III, p. 2018):

> "An independent producer, however, could hardly engage in the process of refining gas by a cracking process without infringing one or more of the patented cracking processes (*i. e.*, of the primary defendants). One such refiner might infringe the process of one primary defendant while another independent refiner would run afoul of another patent."

And the Master, in his report, said (R. Vol. I, p. 607):

> "It is very certain that no one could practice the commercial process of either of the primary defendants without running foul of the patents on indispensable features embodied in it."

That the cracking processes owned by the primary defendants are the best of the known cracking processes, see the Master's Report, R. Vol. I, pp. 610, 611.

No one patent, and probably no group of patents, owned by a single licensor is sufficient to afford adequate protection to a present day commercially practicable cracking process. The art of cracking has developed very rapidly since the first patent was issued to the Standard Oil

Company of Indiana, in January, 1913. Improvements in apparatus have likewise been developed at a rapid pace. What was regarded fifteen years ago as the most up-to-date art of cracking and apparatus has long since become obsolete. The percentage of yield of gasoline from a given quantity of crude oil or of charging stock by reason of the new processes and apparatus has been greatly increased.

The range of temperatures and the range of pressures have been greatly increased. (Master's Report, R. 611.) This necessitated the development of cracking chambers of great tensile strength and apparatus of improved design. The best type of still or cracking chamber available in 1913 is wholly inadequate under modern conditions. The development and perfection of processes by which runs could be continuous for a great number of days have greatly added to the economy of production. The earlier type of batch still received one charge and after the charging stock was cracked, it was necessary to shut down the stills and permit them to become cool and cleaned out before another batch could be charged into the still. (Master's Report, R. 610, 611.) These are but illustrations of the very numerous developments in both the art and apparatus of cracking that have taken place since the art of cracking became a commercial possibility.

A specific illustration is the development of what is known as the "Indiana Bubble Tower" apparatus. Such bubble tower systems have been applied to various processes already in existence and have become a commercially important development for the efficient and economical recovery of cracked gasoline. (See letter May 18, 1923, R. Vol. II, 1353.)

Every improvement in cracking is covered by patents or by applications and such patents and applications are owned by several different companies. Each patent-owning company may claim that its process is the best one. On the other hand, some of the patent-holding companies who are in the